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OFFICIAL REPORT OF EVIDENCE

TAKEN BY THE

PUBLIC ACCOUNTS COMMITTEE

IN CONNECTION WITH

ICE BREAKER

No. 1—Wednesday, May 2, 1917

NAMES OF WITNESSES.

J. FRASER, AUDITOR GENERAL - - - - - OTTAWA

A. JOHNSTON, DEPUTY MINISTER OF MARINE - - - - - OTTAWA



OTTAWA

PRINTED BY J. DE L. TACHÉ,
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1917

MINUTES OF EVIDENCE.

HOUSE OF COMMONS, OTTAWA,

COMMITTEE ROOM 301,

WEDNESDAY, May 2, 1917.

The Select Standing Committee on Public Accounts, met at 11 o'clock, a.m., the Chairman, Mr. Middlebro, presiding.

The Committee proceeded to the consideration of certain payments to the Canadian Vickers, Limited, for the construction of an ice-breaking steamer (The *J. D. Hazen*), for \$998,583.

Mr. JOHN FRASER, Auditor General, called, sworn and examined.

By Mr. Carvell:

Q. Mr. Fraser, have you before you a copy of a letter written by you on August 25, 1916, to the Deputy Minister of Marine and Fisheries, regarding the transfer of an icebreaker to the Russian Government as set out at page O—142 of your annual report?—A. I have.

Q. Will you tell me the circumstances under which that letter was written?—A. About that date there was a deposit receipt came into the office for some three hundred thousand and odd dollars.

Q. As a matter of fact it was \$349,000, was it not?—A. That is made up of two items, and the order for the transfer of the security deposit, that was held in connection with the contract for a steamer; it was practically a refund and the two amounts would make up the sum of \$349,504.05. The only time that we release a security deposit is when the contract is completed or unless the contract is terminated and authority given by Order in Council for the release of the security. I inquired of the Deputy Minister as to the nature of the transaction, as to why they were taking this money back from them and releasing their security. He told me they had a request from the Imperial Government to transfer this icebreaker to the Russian Government. I asked him if they were getting any consideration, and he said "no." I pointed out to him that the cost of construction would be very much more at the time that the transaction took place than it would be at the time the contract was made, and that we were giving up a valuable asset in giving up that contract. I wanted him to justify it before I could pass the entry. He told me that it was proposed to give the Russian Government, one of the Allies, the benefit of our contract; I suppose that was a proper thing to do, and I wrote him a letter and got a reply to it.

Q. Before you come to the letter would you describe to the Committee what was the subject matter of the correspondence?—A. That they had in the Marine Department?

Q. Yes.—A. I remember his showing me a cablegram from Bonar Law.

Q. What was it about? An icebreaker, was it not?—A. Yes.

Q. What was it called?—A. It was known locally as the *J. D. Hazen* icebreaker that the Canadian Vickers, Limited, were building for the Dominion Government.

Q. Do you know when the contract was entered into?—A. On the 14th March, 1914.

Q. How much was the contract for?—A. It is not mentioned here but the amount is pretty close to a million dollars.

By the Chairman:

Q. \$998,583, it says in the letter, is that not right?—A. Yes, \$998,583.

Q. Have you a copy of the contract with you?—A. I think it is in the papers produced here.

Q. It is not here, have you a copy?—A. No, I have not, it is in the Marine Department.

Mr. CARVELL: Has the Marine Department been notified to send all the papers in connection with this matter to the Committee?

The CLERK: Yes.

Mr. CARVELL: And they have not done so.

The CLERK: No.

Mr. CARVELL: Then we shall have to notify them again.

By Mr. Carvell:

Q. Is the letter you wrote, and to which you have referred, that which is set forth in the Auditor General's Report at page O-142?—A. Yes.

Q. Will you read it?—A. (Reads):

AUDITOR GENERAL'S OFFICE, OTTAWA,

AUGUST 25, 1916.

"SIR,—Under the authority of an Order in Council dated 14th March, 1914, a contract was entered into with the Canadian Vickers, Limited, for the construction of an ice-breaking steamer (the *J. D. Hazen*), for \$998,583.

"Payments on progress estimates amounting to \$349,504.05 have been made. There is also a charge for supervision of \$350 and transfer from ship channel, \$1,086.39, in all \$350,940.44.

"A deposit receipt has been received from your Department for \$299,574.90 and an application to transfer the contractor's security deposit of \$49,929.15, making a total of \$349,504.05.

"I understand that your Department intends asking for the release of Vickers Company from their contract to enable them to sell the icebreaker to the Russian Government.

"You are aware of the fact that the cost of construction of vessels has increased, probably 35 or 40 per cent, since the making of this contract, and in cancelling the same the Dominion Government would be parting with a valuable asset, and I do not see how you can justify the placing in the hands of the Canadian Vickers Company an opportunity to make a profit of possibly \$300,000 or \$400,000.

"If it is intended as a friendly act to one of the Allies to give them the benefit of such an excellent contract, I would suggest that the constructing company be not released but that the contract be assigned to the Russian Government, unless it is ascertained that the price to be paid by them to the Canadian Vickers Company is not in excess of the contract with the Dominion Government.

"Before authorizing the transfer of the security deposit, would like to know on what terms and conditions the sale is to be made to the Russian Government.

"I am, sir,

"Your obedient servant,

"J. FRASER,

"THE DEPUTY MINISTER,

"Marine and Fisheries."

"Auditor General."

Q. Did you receive an answer to that letter?—A. Yes. (reads):

DEPARTMENT OF MARINE,
OTTAWA,

1st September, 1916.

Transfer of Icebreaker to Russian Government.

"SIR,—I am to acknowledge the receipt of your letter of the 25th ultimo, directing attention to the contract between the Department and Messrs. Canadian Vickers, Limited, under the authority of the Order in Council dated 14th March, 1914.

"2. This Department does not intend asking for the release of Vickers Company from their contract to enable them to sell the icebreaker to the Russian Government.

"3. The Department is well aware of the fact that the cost of construction of vessels has increased very substantially since the contract under review was concluded, and that in parting with the ship we are parting with a valuable asset. This phase of the transaction was carefully considered by the Government before the decision to part with the ship was arrived at.

"4. The Department does not propose to justify the placing in the hands of the Canadian Vickers Company an opportunity to make a profit of possibly \$300,000 or \$400,000. If any such opportunity shall be given to Canadian Vickers, Limited, it will be through other sources than this Department.

"5. With reference to your suggestion 'that the construction company be not released, but that the contract be assigned to the Russian Government,' I would invite your attention to the Order in Council dated 28th August, 1916, in that connection.

"6. The intention from the very first, as is clearly evident from the correspondence, was and is to transfer the vessel to the Russian Government. As the vessel is under construction, this might properly involve a transfer to the Russian Government of the contract between the Canadian Government and Canadian Vickers, Limited. If the Order in Council of the 28th ultimo is defective in this respect, the necessary action to remedy this defect can readily be taken.

"7. The terms and conditions upon which the sale or transfer of the ship to the Russian Government was to be made, were that the amounts actually paid to the constructing company by the Department were to be refunded.

"I am, sir,

"Your obedient servant,

(Sgd.)

A. JOHNSTON,

Deputy Minister.

The AUDITOR GENERAL,
Ottawa.

Q. Now, have you the Order in Council referred to in, I think it is, the fifth paragraph of that letter? The Order in Council is dated, I think, the 28th August, 1916.—A. Yes. (Reads):

"Extract of Order in Council, 28th August, 1916.

P.C. 2006.

"MARINE AND FISHERIES:

"The Committee of the Privy Council have had before them a report, dated 22nd August, 1916, from the Minister of Marine and Fisheries, stating

that on the 18th March, 1914, a contract was concluded between the Department of Marine and Fisheries of the first part and Canadian Vickers, Limited, of Montreal, of the second part, for the construction of an ice-breaking vessel at a cost of \$998,583;

"That under date of 25th February, 1916, the Secretary of State for the Colonies telegraphed the Governor General as follows:—

"‘It is the wish of the Russian Government to acquire an icebreaker of the Canadian type which it is understood is being constructed at Vickers’ works at Montreal. The Russian Government have been permitted to order six such vessels from the United Kingdom. In the present scarcity of merchant tonnage His Majesty’s Government regard the results of Russian port facilities which are expected from the provision of adequate number of ice-breakers as most important. The Canadian Government will be rendering valuable assistance if they can agree to the transfer of this vessel to the Russian Government and offer such help as is possible to ensure delivery by the middle of October, 1916, in readiness for service in the following winter. Should be glad to have views of your Ministers as soon as convenient.’

"That under date of 26th February, 1916, the Governor General telegraphed to the Secretary of State for the Colonies, as follows:—

"‘Your telegram of yesterday respecting icebreaker. My advisers will agree to transfer of this vessel to Russian Government and they will give every possible assistance to ensure delivery by middle of October as requested.’"

That is the end of that cablegram.

Q. Now you are going on to complete the Order in Council?—A. Yes (Reads):

"That having regard to the importance to Canada and the British Empire of the service to be performed, it was decided to transfer the vessel on the understanding that the total amount of money paid to Canadian Vickers, Limited, under the terms of the contract alluded to in paragraph 1, viz:—\$349,504.05, be refunded to the Government of Canada.

"That Canadian Vickers, Limited has refunded to the Department of Marine and Fisheries for the use of the Government of Canada the total amount of \$349,504.05 paid to the company under the terms of the contract of the 18th March, 1914.

"The Committee, on the recommendation of the Minister of Marine and Fisheries, submit the same for approval.

"Sgd. RODOLPHE BOUDREAU,

"C.P.C."

Q. I observe that in the last paragraph of the Deputy Minister’s letter the statement is made that if the Order in Council which you have just read did not clearly set forth the intentions it could be supplemented by a further Order in Council.—A. Yes.

Q. So far as you know was any further Order in Council passed?—A. I never saw it.

Q. Have you ever heard of any further Order in Council being passed?—A. No.

Q. And that was the end of it so far as the Canadian Government was concerned, and as far as you have been able to obtain information from the documents?—A. Yes.

Q. And as a result of that did you release the money and the deposit receipt?—A. Yes, both.

Q. And then, so far as your department is concerned, the matter was closed up, and Vickers were released?—A. I do not know whether Vickers were released or not.

Q. I say, so far as your department was concerned?—A. The transaction was closed.

Q. You released the deposit anyway?—A. We released the deposit and applied it as part payment of that refund.

Q. Can you tell from those papers when the contract was signed, was it the 14th March, 1914?—A. That is the date the Order in Council authorized it. It would be somewhere about that date that it was signed.

Q. Do you know when or if they had commenced construction?—A. They did, I am not sure of the date, some time in 1914.

Q. Have you the dates of the payments of the progress estimates which I presume would give some indication of the progress of the work?—A. The first instalment of 10 per cent on the contract was paid on an account dated 8th September, 1914.

Q. How much?—A. \$99,858.30.

Q. That is on the 8th September, 1914?—A. Yes.

Q. Of course, not having the contract before you, you do not know, I suppose, whether that represented work actually constructed or whether they had agreed to make advances?—A. It would be for work constructed on a progress estimate.

Q. When was the next payment authorized?—A. December 31, 1914, \$49,929.15, second instalment in connection with the construction of the vessel.

By the Chairman:

Q. What is the date of that?—A. 31st December, 1914. These payments set out practically what was done. The second instalment, namely, 5 per cent, when cylinders, column and bed plates are cast. The contract arranges for certain percentages when certain progress was made.

Q. What percentage was that?—A. 5 per cent.

By Mr. Carvell:

Q. Perhaps you might go back and state for what parts of the work the first 10 per cent was paid.—A. 10 per cent, construction No. 1, when the keel plate is laid. That is the first instalment.

Q. Then the vessel was actually located in their yards and the ground occupied and all that when the first 10 per cent was paid?—A. It must have been.

Q. They could not move that very well.—A. The third instalment, March 30, 1915: "Third instalment on icebreaker due when the boilers are plated and the cylinders are bored, 10 per cent."

By Mr. Bennett (Simcoe):

Q. Who certified to those estimates before they were paid?—A. Charles Duguid, for the Marine Department.

By Mr. Carvell:

Q. Lloyds certified also, is that not true, Mr. Auditor?—A. Lloyds Register of British and Foreign Shipping—there are some documents here signed by the surveyor of Lloyds.

Q. I think they were certified by Lloyds as well as by the Ottawa Department.

By Mr. Bennett (Simcoe):

Q. In what capacity does Mr. Duguid sign?—A. As Naval Constructor.

Q. For whom?—A. The Marine Department. The fourth instalment is on October 15, 1915: "Fourth instalment on icebreaker equivalent to 10 per cent of \$998,583, when the vessel is framed with stem and stern post in position." Certified for payment on the 21st October, by Charles Duguid.

By Mr. Carvell:

Q. 1915?—A. Yes.

Q. After that the money was returned and their deposit was released?—A. Yes.

Mr. BOYS: Not released, transferred.

Mr. CARVELL: Yes, transferred.

By Mr. Blain:

Q. Were all those payments made in the regular way and signed by the proper officer?—A. Yes.

By the Chairman:

Q. You do not know what took place after that, whether the boat was transferred to the Russian Government, or what the Vickers people got for the boat?—A. The Canadian Vickers—no, I do not know.

Q. Do you know whether or not they got a larger price from the Russian Government than they were to get from the Canadian Government?—A. I do not know what Canadian Vickers got.

Q. You do not really know whether or not the Canadian Vickers made the sum that you mentioned, or any sum, by the transfer of this ship?—A. I have reason to believe that they have.

Q. What reason have you to believe that? Have you anything official in the Department?—A. No.

By Mr. Bennett (Simcoe):

Q. Who informed you that the Government intended to release Vickers?—A. Nobody, I assumed that from the fact—

Q. Let me read this to you: "I understand that your Department intends asking for the release of Vickers Co. from their contract to enable them to sell the icebreaker to the Russian Government." What information had you received and from whom, that you arrived at that conclusion?—A. From the fact that the money was returned, the progress estimates returned, and they were asking for release of the contractors' security.

Q. That was an assumption?—A. An assumption on my part, yes.

Q. How was it that the letter from the Marine Department was not printed in the Auditor General's Report, because it makes a specific denial, saying that the Government had not released it? Would it not have been fairer to publish the other letter?—A. This letter was marked "confidential", I do not know why, at the time we prepared the report.

By Mr. Boys:

Q. Which letter was confidential?—A. The one from the Marine Department. And when they were preparing the report they handed me the correspondence to look over before putting it in. I saw it marked "confidential," and thought that there might have been some reason, war reasons, why it should not be published.

Q. You released the transfer of the security deposit, didn't you?—A. Well, I passed the entry for the release of it.

Q. Your letter said: "Before authorizing the transfer of the security deposit, I would like to know on what terms and conditions the sale is to be made to the Russian Government." I presume, before doing that, you did learn of the terms and conditions?—A. I had that letter from Mr. Johnston.

Q. That is all you had?—A. That is all.

Q. Did you release the transfer of the security deposit?—A. I passed—

Q. I think I am entitled to an answer?

Mr. CARVELL: This witness ought to be allowed to state what he did.

Mr. BOYS: He says he had before reaching a certain conclusion—

The WITNESS: If you would let me explain: all the security deposits are with the Finance Department, as they are bearing interest, and there are regulations in connection with the release of these securities, which are with the Finance Department, stating that they will receive the certificates from the Department concerned that the contract has been completed or that it is—

By Mr. Boys:

Q. I am not interested in that at this moment. It requires your release?—A. No, that is what I am trying to explain.

Q. It requires some authority from you?—A. No.

Q. Why did you say then that you wanted certain information?—A. Because they sent me a journal entry which I would have to sign before the entry could get through.

Q. It did not require your authority?—A. They had to put the journal entry through me because a cheque had been issued without my authority.

Q. Did you give that authority?—A. I did.

Q. In what way and when?—A. By signing the transfer entry.

Q. Would you produce it, please, if you have it there. It is a journal entry sent in from the Finance Department.

The CHAIRMAN: Dated 26th July, 1916.

By Mr. Boys:

Q. Where did you sign, Mr. Fraser?—A. This is the application. The entry is in the book. I signed for it.

Q. You might read that please?—A. This is the application from the Marine Department for the transfer entry of the security: (Reads)

DEPARTMENT OF MARINE AND FISHERIES.

OTTAWA, July 26, 1916.

\$49929.15.

SIR,—I have the honour to request that Transfer Entries be made as follows:—

Debiting Receiver General.

Crediting Casual Revenue.

The cheque deposited by the Canadian Vickers Ltd. on April 30/14 amounting to \$49,929.15 is to be placed with their cheque No. 4064 amounting to \$299,574.90 which two amounts equal the total paid Canadian Vickers Ltd. for construction of new icebreaker "J. D. Hazen." This amount being refunded by Company as per their letter dated July 24/16.

M.H.H.

A cheque will also have to issue for interest on deposit in favour of Canadian Vickers Limited.

J. B. A. BOUDREAU,

Asst. Chief Accountant.

Your obedient servant,

C. STANTON,

Asst. Deputy Minister of Marine and Fisheries.

To the Auditor General,
Ottawa.

Q. What is the date?—A. 26th July, 1916.

Q. That was directed to you?—A. Yes.

Q. And pursuant to that, you did give the necessary authority for the transfer of the security deposit by signing in the book you referred to, which is not here?—A. Well, I concurred in it.

Q. You concurred in it, I am adopting your own language, in using the word authorization. Are we to assume then that when you did concur or authorize that transfer you were satisfied?—A. Yes, I had all the explanation I had asked for.

Q. I did not ask you that. Were you satisfied?—A. I was satisfied.

By Mr. Bennett (Simcoe):

Q. Have you any objection to telling the Committee, Mr. Fraser, who informed you that the vessel has been sold afterwards to the Russian Government at a price above the contract price agreed upon with the Dominion Government?—A. Yes, that was confidential.

Q. Was it anybody in the Department?—A. No.

Q. Was it a representative of the Russian Government, or a representative of Vickers? Can you go that far?—A. It was not a representative of either of those.

Q. Was it in any way directly or indirectly connected with either of those, either the Government of Russia?—A. No.

By Mr. Carvell:

Q. Or of Vickers Maxim?—A. No.

By Mr. Blain:

Q. Did you find out at the time of the sale to the Russian Government—you did find out the terms of the contract if there was any contract, with the Russian Government before you authorized the release?—A. No, that was all the information that I had.

By Mr. Carvell:

Q. I take it this information, whatever it may be, was obtained since August 28th, 1914?—A. Yes.

Q. And since September 1st, 1916.

By Mr. Bennett (Simcoe):

Q. What is the date of Mr. Johnston's letter to you marked "confidential"?

The CHAIRMAN: September 1st, 1916.

By Mr. Bennett (Simcoe):

Q. In view of the fact that the Department specifically said through the Deputy in that letter that they did not intend to assign the contract, would it not have been fair to ask the Department if they could not remove this seal of confidence and publish that letter, and let both go into your report, your assumption and their denial?—A. I suppose there would have been no harm.

Q. Did that occur to you, that that would have been to the better interest of all parties concerned, and of the country in particular, that your assumption and their explicit denial should go out together in your report? However, you did not call the attention of the Department to that matter and ask if you might publish the letter?—A. That was the only thought that struck me at the time.

Q. It would be better to have let the whole record go through complete.

By Mr. Boys:

Q. For my own information, I would like to know who it is that compiles this report. Do you do it entirely yourself or give instructions?—A. It is compiled by the staff.

Q. Am I to understand that you gave instructions to have your letter appear on p. 0-142 of the report?—A. Yes.

Q. And at that time you had the explanation that you have now given this Committee?—A. I had this letter of Mr. Johnston's.

Q. And you were also satisfied and had concurred?—A. Yes.

Q. Why did you have this letter printed at all if you were satisfied?—A. Oh, at the time of the printing of this?

Q. At the time you gave instructions for the printing of this report?—A. I was not satisfied at that time; I was satisfied at the time the transaction went through the office. I was not satisfied at the time this was printed in the report.

Q. Subsequent to your concurrence, you learned of something that disturbed your mind?—A. Yes.

Q. That was what?—A. That it had been sold at a profit, or that a profit had been made out of the transaction.

Q. How did you learn that, and from whom, that the ice-breaker had been sold at a profit?—A. That was confidential information that a party gave me.

Q. Is it confidential still?—A. Yes.

By Mr. Stevens:

Q. Will you give it to the Prime Minister—

Mr. Boys: He said it was confidential still.

By Mr. Boys:

Q. Why did you put this letter in—for the purpose of opening up something that was confidential?—A. That is my method of reporting to Parliament.

Q. I appreciate that. We know that quite well. It is a fact that you deliberately put this one single letter in but nothing else, your purpose being that, although you had received certain explanations and information which was confidential, you wanted the matter opened up?—A. Certainly. That was why I published it, so that Parliament could deal with it in any way they saw fit.

Q. How was it you were satisfied? What was it that satisfied you? From the very first you were not satisfied? What did satisfy you?—A. I do not understand that question exactly.

Q. When you wrote your letter on August 25, 1916, you were not satisfied?—A. I was not satisfied; I wanted to get a reply from the Marine Department that would justify me in passing the entry.

Q. When you wrote that letter of August 25, the points taken by you were, that the Vickers Co., if the contract were cancelled, might make a profit of \$300,000 or \$400,000, and that if the Russian Government were to get the benefit you wanted the contract assigned to them?—A. Yes.

Q. And that was the position you took before you concurred?—A. Yes.

Q. When were you ever satisfied upon these two points before you concurred?—A. When I received the letter from the Marine Department.

Q. And that did satisfy you on those two points?—A. Yes.

Q. Are there any other points you have since learned that you are not satisfied on?—A. That a profit was made out of the transaction.

By Mr. Devlin:

Q. Will you just state what profit?

Mr. BOYS: I have asked the witness what he learned on that subject.

By the Chairman:

Q. Do you know definitely enough, Mr. Fraser, to let it go before the public now? What I mean is this: You had a letter on September 1, 1916, from the Marine Department which, if true, was satisfactory to you?—A. Yes.

Mr. DEVLIN: Perhaps Mr. Fraser might answer the question I put to him

By the Chairman:

Q. If that letter was true, it was satisfactory to you?—A. Yes.

Q. Afterwards, you must have got something unofficially from somebody else, in private, which you believed in preference to that letter. What was that?—A. That a profit had been made.

Mr. BOYS: We want to get information on that subject.

By Mr. Devlin:

Q. What was the amount of the profit, Mr. Fraser?—A. Over half a million.

By Mr. Boys:

Q. Made by Vickers Co., or whom?—A. By Vickers, Ltd.

Q. And from whom did they get that money?—A. I presume it was from the Russians, I do not know if it was anybody else.

Q. All this is hearsay, what somebody told you. We may as well get all the hearsay evidence while we are at it.

Mr. CARVELL: You might get some.

Mr. BOYS: I am satisfied to take all that is coming.

Mr. CARVELL: This witness has sworn that he has something to base his evidence on.

By Mr. Morphy:

Q. I am a little green about the position the Auditor General occupies. After you were satisfied, you got a communication from someone that removed your conviction of satisfaction, changed your mind?—A. I changed my mind.

Q. Was that communication in writing?—A. It was in conversation.

Q. Was it in writing?—A. No.

Q. It was simply a verbal communication?—A. Yes.

Q. Was the person known to you previously?—A. Only a short time.

Q. Did he volunteer the information, or did you seek him out?—A. Perhaps this is the plainer way to put it; I was consulted by him about some other matters with which the Dominion Government was not concerned, and during the discussion this matter came up.

Q. I see. He volunteered it, then, I presume?—A. Well, I am always anxious to get information.

By Mr. Bennett (Simcoe):

Q. You are a perpetual prowler?—A. Yes. I am always open for information in connection with my work.

By Mr. Morphy:

Q. Did it take place in his office?—A. Yes.

Q. Has the gentleman an office?—A. Yes.

Q. Did it take place in his office?—A. Yes.

Q. Did you go there at his request?—A. Yes.

Q. I see. Now then, having got this information, did you return to your own office and make a memorandum of it?—A. No.

Q. You have never made at any time any written memorandum of this important matter?—A. I have no doubt that I put it down on paper when I got in my own office again.

Q. Where is that memorandum?—A. It will be in my office, if I made it.

Q. Will you produce it.

WITNESS: Mr. Chairman, I would like—

By Mr. Morphy:

Q. You can answer that question.—A. I would like to have an understanding with this Committee. I understood in former years that I could receive confidential information in connection with my duties—

Q. Pardon me, I am coming to that later, what I want to find out now is that you assume the right to receive confidential information, in your official capacity as Auditor-General, and to act upon it. That is the general stand you take; will you now tell the Committee on what you base your right to receive confidential communications, verbally, and to use them as a public officer and afterwards refuse to disclose them to any Department of the Government, or to any one else, till it suits your own pleasure.—A. I always thought I should not be asked to disclose it, if the information can be obtained in any other way.

By Mr. Carvell:

Q. Will this Committee have power to obtain this information from any other source except yours, as far as you know?—A. I think they could go to the Admiralty.

Q. But we have no power over the British Admiralty. I think the point Mr. Morphy is making is a proper one.

By Mr. Boys:

Q. Do you believe the information you got from this gentleman to be reliable?—A. Yes.

Q. Did you report that information either to the Minister or to the Premier?—A. No.

Q. Why not?—A. Because I have not seen either of them since.

Q. But you could write a letter to them.—A. I could

Q. When did you receive the information?—A. In the early part of the winter.

Q. It was, of course, before this letter went to press.—A. I cannot recollect the exact date, I want to be sure of my dates.

Q. It is manifest that you must have got it before this letter went to the printer because it was owing to the fact that you were not satisfied with the reply you received that your letter was published in the report.—A. Yes, it was before.

Q. Is your position this; that you wanted to open up this subject-matter on the basis of confidential information which you were not willing to disclose to the Committee when the time came?—A. Pardon me, I want to make another statement—I did speak to a Minister.

Q. Who was it?—A. If the Committee will allow me, I would like to have his consent before giving his name. I want to go back, I started to make an explanation, but I was not allowed to finish. I understood I could receive confidential communications and not have to disclose them.

Q. Do you also understand that you are supposed to have matters brought up, and then withhold the information upon which you bring the matter up so that the public cannot learn on what information you base your action?—A. If the information can be produced otherwise, I should not be asked.

Q. If you can suggest any way by which that information can be obtained without troubling you to give it, I will stop my questioning, but if it cannot be otherwise obtained, I think it is the duty of this Committee to pursue the matter as I am doing in pressing this question.—A. I am pretty sure it can be got from the British Government.

Q. You have objection to telling the name of your informant?—A. Yes.

Q. Did he ask you not to disclose his identity?—A. I do not think so.

Q. Then why do you not disclose it? It is in the public interest, is it not?—A. His name would not be of any use.

Q. It would be, in this way, that the Committee could subpoena him, and bring him here.—A. No, you could not.

Q. Why not?—A. Because he is not in this country.

Q. If he is in the United States, he might be willing to come, men have been willing to come before now. Did you receive the information on which you acted, or any other information upon this subject, from any other source?—A. I beg pardon?

Q. Did you receive this information, or any information upon this subject from any other source than this one person?—A. I do not recollect having got any information from any other source than this.

Q. I would like to get an answer to my question, will you disclose the name of your informant?—A. Not unless compelled by the Committee to do so.

Q. On a voluntary basis, are you willing to disclose the name of your informant?—A. I want to say to the Committee, that if I have to disclose confidential information, it will hamper me in my work very much.

Q. I am asking you are you willing, of your own volition, to disclose the name of your informant, or are you unwilling to do so?—A. I am unwilling.

By Mr. Blain:

Q. Did this conversation take place in Canada?—A. In the old country.

By the Chairman:

Q. Was the allegation that the Vickers Company of Canada had received this additional sum?—A. Vickers Limited.

Q. Was it the English Vickers that had the contract for building the "Hazen"?—A. No.

Q. You say it was the Canadian Vickers, the firm which had the contract for building the "Hazen" that received this additional money?—A. Unless indirectly, I do not know, they may have received it.

Q. Was it the Canadian Vickers had the contract?—A. Yes.

Q. And you say it was not the Canadian Vickers that might have made this money out of it?—A. Unless indirectly.

Q. Did your informant say it was the English Vickers that made the money?—A. That was the information I received.

Q. One company has the contract, and the other company makes the money, is that it?—A. That is the way it would appear.

Q. So that if we were to subpoena a member of the Canadian Vickers firm, would he, from the information you have, be able truthfully to say that they did not make the money out of this contract?—A. I do not know—I do not know from the information I received what their books will show.

Q. If you subpoenaed a member of the English Vickers Company, would he be obliged to say if his firm made this additional sum?—A. Yes, I think so.

Q. Then it means that we must subpoena a witness from the English firm to get the information that you got?—A. Would you let me make a suggestion?

Q. Certainly. A. I have not seen all the documents that are in the Department of Marine; at least I suppose I have not, there must be more than I have seen; I would like to see the correspondence brought down by the Marine Department. There may be something in that correspondence that would clear the matter up.

Q. Now, Mr. Fraser, don't you think you should have made some inquiry before setting this abroad in the country? What I mean is this: perhaps you are perfectly right in saying you must take advantage of that information you got; but do you think you are justified in making that information public, going forth as a statement of fact, without giving anybody an opportunity to contradict it?—A. I think so.

Q. To-morrow it will go abroad through the press of this country that \$500,000 has been made by the Vickers Co., and subsequently it may be proven that the transaction is alright?—A. The committee made me tell that; I did not wish to tell it.

By Mr. Boys:

Q. You put that letter in here for the purpose of bringing that information out, and you have told us yourself that you wanted it brought out?—A. I was not concerned with the country, I was concerned with Parliament.

Mr. CARVELL: Had we not better try to get this information?

The CHAIRMAN: We must get that information now.

Mr. CARVELL: We will ask Mr. Johnston to come here on Friday, and subpoena the Canadian Vickers with their books and papers. If we cannot get it that way, I, as one member of this committee, would go a long way towards asking this witness to break his silence and tell all he knows about it.

Mr. Boys: We will join you.

By Mr. McKenzie:

Q. Will the Auditor General tell us who conducted the negotiations on behalf of the Russian Government?—A. I do not know.

By Mr. Boys:

Q. Will you produce that written memo that you have?—A. It would only be a memo, so I would not forget the figures.

Q. You got that information last January?—A. Before January.

Q. As you have pointed out, this is a large item, an important one: did it occur to you to write a letter to the minister or to the Premier?—A. No, I had the assurance of the minister that nothing of this sort would take place.

Q. I grant you that. But apparently following that assurance you learned from this informant that it had taken place?—A. Yes.

Q. Now, I ask you, this being an important item, did it occur to you to write either to the minister, referring to his assurance and to what you had since heard, or to the Premier?—A. Well, I suppose the minister would know all about the transaction.

Q. Did it occur to you to write?—A. No.

Q. Didn't you think it was important enough to write to the minister about, owing to the assurance he had given you?—A. And accuse him of not telling the truth?

Q. Simply telling him that he had assured you, also that you had since learned from reliable information that the Vickers had made a profit of \$500,000. Would that not have been a proper thing to do?—A. No, according to his own recommendation to council it was for a transfer to the Russian Government.

Q. You had raised that point in your letter, the possibility that the Vickers people might make that money?—A. Yes.

Q. And you were informed that it was to be one of the conditions that they should not?—A. Yes.

Q. You learned after your information was received that that was not so, did you not?—A. Yes.

Q. Now, then, why did you not, at all events, bring that to the attention of the minister before publishing your letter by itself as you have done?—A. I think in a case of this sort I was justified in doing what I did, report the matter to Parliament.

Q. And you think it was no part of your duty to bring this important matter of half a million dollars to the attention of the minister?—A. No.

Q. You preferred to put it in the report as you have done and let it be ventilated in this way on hearsay evidence? Is that really the position you take?—A. I put it there anyway. I use my best —

Q. I want to be fair. Instead of bringing that to the attention of the minister to give him an opportunity of giving you what information he could, you took the course of putting a single letter in the report, expecting it to be brought up in this committee on hearsay evidence?—A. I had the assurance of the minister that no profit would be made, that the transfer would be made to the Russian Government.

Q. I appreciate that?—A. I got information afterwards which I believed to be correct. I did not think that I had any reason to go back to the minister and tell him that the information he gave me was not correct. I do not think it was my duty.

Q. As a matter of ordinary courtesy, you did not think it was your duty?—A. No, because he was the one who performed the transaction.

Q. I would have thought, Mr. Fraser, that you would have felt, even from the standpoint of courtesy, that you should have communicated with the minister and said to him, "I have information absolutely contrary to the assurance you gave me," and telling him what it was and hearing his explanation.

MR. CARVELL: That would not have changed the situation.

MR. BOYS: It might have. He admits himself that if the correspondence was here it would alter the whole matter.

By Mr. Bennett (Simcoe):

Q. What was the date of your return from England?—A. A day or two after Christmas.

Q. Was the Prime Minister here after your return, and when you got this information by way of conversation?—A. Yes.

Q. And the Minister of Marine and Fisheries, the Hon. Mr. Hazen, was here too. Both were here, after you had this information. You had opportunities daily of seeing them?—A. I could have seen them.

By Mr. Boys:

Q. They were here for nearly six weeks after your return?—A. I suppose so, there was time enough to see them.

By Mr. Morphy:

Q. Mr. Fraser, do you make it a practice of making memoranda of confidential verbal communications?—A. Sometimes where there are figures concerned; I am not a very good hand to remember figures.

Q. You have stated you think you made a memorandum of this?—A. Possibly, it would only be a memo of the figures.

THE CHAIRMAN: What figures?

By Mr. Morphy:

Q. Would you mark that memo confidential?—A. Yes, it would be confidential.

Q. Would you mark it yourself as confidential?—A. No.

Q. You would not?—A. No.

Q. Then supposing you died it would be open to the public; you had not protected the confidence of this man who gave it to you.—A. I can hardly answer that question.

By Mr. Davidson:

Q. Since you have inserted your letter in the Auditor General's Report, do you not think it would be only fair if you had stated in that report, that you had received a reply from the department that apparently gave a satisfactory answer?—A. It would not have been any harm to have done so, but he had marked his reply as confidential and I thought that he had some purpose in doing that.

Q. And since it was marked confidential, and you thought you were not at liberty to use it, do you not think you should have stated at least that you had received a reply from the department, and instead of letting it go out to the country that apparently you had not received any reply at all? You could have stated, without any breach of confidence that you had received a reply that was satisfactory at the time?—A. I suppose I could have done so.

Q. Would it not have been fair?—A. You cannot think of all these things at the time; it is quite easy now, looking back, to see what might have been done.

Q. You knew what the effect of publishing that letter would be on the public mind; the inference would be that you had written a letter and had received no reply?—A. It did not strike me that way.

Q. Does it not strike you now. Would not a person who simply reads your report, and the letter which you wrote, and which you published therein, finding nothing further than your letter, no reply to it having been received, apparently, be bound to draw the inference that there was nothing further to add?—A. I had not seen any criticism in the papers, or anything in connection with it at that time; I am not responsible for any inference that may be drawn, I did not intend it.

Q. What do you, as a reasonable man, think would be the result of publishing that correspondence in the manner in which it was published. Do you not think that the conclusion arrived at by any ordinary person would be that there was nothing further to report?—A. I do not know.

Q. That there was nothing but just the one letter?—A. I did not give it any thought at the time. The only thought I gave it was that seeing Mr. Johnston's letter was marked confidential, it would be better not to put it in the report.

Q. What was the object of inserting your letter in the report?—A. To call the attention of Parliament to it, for your information, and for the information of every other member of Parliament.

Q. That you wanted Parliament to deal with it, and by putting in your letter you wanted Parliament to believe that no explanation had been given, did you not?—A. No, I supposed that if Parliament took any stock in it at all, they would inquire into it.

By the Chairman:

Q. Supposing that, acting upon this private information, you wrote that letter to the Department, officially, and then you published that letter and supposing your information afterwards turned out to be entirely untrue, and that the departmental letter in reply was absolutely correct, would you not think that some injustice had been done to the department by publishing your letter, and not the reply?—A. I would have to take the consequences.

Q. But if your information turns out to be entirely untrue, do you not think that you have done a great injustice to the department by the publication of that letter, without their reply?—A. I do not think so.

By Mr. Blain:

Q. What was the date at which the vessel was to be completed?—A. I think it was some time in 1915; I am not certain.

Q. And when was it completed?—A. Not till the fall of 1916, I think, I saw in the papers that it had left some time before the close of navigation.

Mr. Boys: I would like to make a motion that Mr. Fraser attend the committee on Friday and produce the memorandum of the interview that he had with his informant, and which he tells us he has in his office, the memo. which he says he made.

The WITNESS: I did not say that I had made a memo.; I said I may have made it.

By Mr. Boys:

Q. You not only said you may have made it, but you said that you thought you had made it.—A. I said, I thought it might be there if I had made one.

Mr. Boys: I would ask that you attend on Friday and produce it if you can find it, and if not that you report to the committee that you have been unable to do so.

By Hon. Mr. Reid:

Q. Mr. Fraser, with reference to this matter, did you discuss it with any of the officials of the department?—A. With Mr. Johnston.

Q. Did you go into the details of the whole matter?—A. Not very much; I asked him some questions and he showed me, I think, some cables from the Imperial Government, asking for the transfer, showing that there was to be a transfer.

Q. That is, they ask for a transfer of the vessel?—A. Yes.

Q. And did he show you the cables which proved that he was carrying out the wishes of the Imperial authorities?—A. Yes, it was a request from the Imperial authorities to transfer the vessel.

Q. Therefore he explained to you that the Marine and Fisheries Department was simply carrying out the request of the Imperial authorities?—A. According to the Order in Council, yes.

Q. That is not the question I asked you. Did Mr. Johnston discuss the matter with you and show you the cables to assure you that the Order in Council, as submitted by Mr. Hazen, was carrying out the request of the British Government?—A. The Order in Council was not passed until after I wrote this letter to Mr. Johnston. There was no Order in Council or anything else to show what they were doing.

Q. What I want to get at is whether you, as Auditor General, after getting the information that led you to make inquiries in connection with this matter, which, of course, it was right for you to make, went into the matter with Mr. Johnston, as deputy minister, thoroughly, and saw the evidence submitted to you by Mr. Johnston in the cables, or otherwise, and was not that sufficient to show you that the Department of Marine and Fisheries was simply carrying out the request, as far as this transaction was concerned, of the Imperial authorities?—A. No. When I saw Mr. Johnston he showed me a file there, and two or three cables in reference to the matter, asking for the transfer. I wanted to be assured that it was not going to be a release from the contract. The fact of their having taken the money back and released the contractor's security would, under ordinary circumstances, lead me to suppose they were going to release the company from the contract. I wrote that letter, setting that out pretty clearly, in order to get a letter from him, stating what they proposed doing.

Q. Did Mr. Johnston inform you that the plans of this ice-breaker were changed after the Russian Government took it over?—A. Slight changes.

Q. You may call it "slight changes," but changes were made in the plans of the ice-breaker in order to make it suitable for the Russian Government.—A. There was a memorandum there of certain changes that were required to be made.

Q. And there was a change in the specifications as originally made by the Canadian Government?—A. There was a slight change.

Q. Have you any idea what the cost of the changes would amount to?—A. No, I could not estimate closely; there was a diving apparatus, a salvage pump, and it seems to me some kind of a winch.

By Mr. Carvell:

Q. A towing winch and a steam-launch.—A. A towing winch and a steam-launch.

Hon. Mr. REID: My information is that the vessel was changed considerably.

Mr. CARVELL: No, absolutely there was not any change, but there were a few additions that will amount to probably \$10,000.

Hon. Mr. REID: That evidence is not in the official record.

Mr. CARVELL: No.

By Mr. Morphy:

Q. When a man comes to your office and gives you information upon which he puts the seal of confidence, do you never ask to be relieved of that pledge of confidence?—A. I let him tell his story.

Q. And if it is an important matter, as Auditor General, do you not take the precaution of saying "This is of interest to the country, and I wish you would give me permission to use it." Have you never done that?—A. I may have done that sometimes.

Q. But you did not do that in this case?—A. No.

Q. Why?—A. I do not know; I did not think of it.

Q. You thought it was very important?—A. Yes.

Q. Would not that have given you more latitude in going on with any investigation you wanted to make, if you had obtained permission to use the name of your informant?—A. I do not think it would have been of any use to the committee.

Q. I did not say that it would have been use to the committee, but might not the mention of the name of your informant be of some value?—A. I did not want to bring him into the matter; I would not ask him.

Q. Was he a reputable man?—A. Yes.

Q. How long had you known him?—A. Not very long; a week or two, perhaps.

Q. How many times had you seen him before you got this information from him?—A. Possibly twice.

Q. Has he been in Canada since?—A. No.

Q. What is his occupation, please?—A. He is an office man.

Q. Was he a Government employee?

Mr. DEVLIN: Perhaps you might say where the conversation took place.

By Mr. Morphy:

Q. Was he a Government employee?—A. A Dominion Government employee?

Q. A Government employee of any kind.—A. Should I answer all these questions?

Q. Why not?

Mr. DEVLIN: Have you any objection to saying where the conversation took place?

By Mr. Morphy:

Q. Are you protecting a Government employee here; is that what you are here for?—A. I can assure the committee I am not doing anything wrong.

Q. The committee should be the judges as to that. Is he a Government employee?—A. He is not a Canadian Government employee.

Q. I did not ask you that. I asked if he is a Government employee. (To the Chairman). The Auditor General seems very reluctant to give fair play and let us have a full disclosure so far as the seal of confidence would permit him. (To the witness). Is he a Government employee?—A. I would prefer not answering that.

Q. Is he a British Government employee?—A. I would prefer not answering that question.

Q. Is he a Russian Government employee?—A. I would prefer not answering that question.

Q. Are you ashamed of having had connection with him?—A. None whatever.

By Mr. Devlin:

Q. Have you any objection to saying where the conversation took place?—A. In London.

Mr. BENNETT (Simcoe): London is a very large place.

Mr. BOYS: In the informant's own office.

Mr. DEVLIN: He says in London.

Mr. BOYS: He has already told the Committee that it took place in the informant's office.

The WITNESS: That is right.

By the Chairman:

Q. Would his information be direct or by hearsay? Would he be a man who would know himself the truth or untruth of that statement, or would he have to take it in turn from someone else?—A. That is pretty hard to answer.

Q. If he was not a member of the Company, would he not have to get the information secondhand?—A. Not necessarily. Mr. Chairman, this has developed in a way that I did not expect this morning. I have nothing to keep back, remember that. I am not trying to keep anything from the Committee that they can obtain in any other reasonable way. If, later on, after the next meeting, after the papers are brought down, it becomes absolutely necessary in this case, I will give all the information I have got. I think that is fair.

By Mr. Boys:

Q. That is fair. I am not proposing to keep anything back at all.

By Mr. Blain:

Q. Mr. Fraser, knowing more about it than anybody else, can you give a suggestion how, in your opinion, they could obtain the information?

By the Chairman:

Q. Can you suggest whom we should subpoena to get this information?—A. Perhaps the Department can clear it up. I do not know what the Department has got. I do not want to be saying things here, that, perhaps, when you get information from the Department, will turn out differently.

Q. Isn't that the reason you should have first gone to the Department before making these statements here?—A. I cannot compel the Department to give me papers.

We have sent for the Deputy Minister.

By Mr. Morphy:

Q. Mr. Fraser, this informant was a comparative stranger to you when you got this information from him. Now, did he, or did you, impose the seal of confidence upon the interview?

MR. BOYS: It was not imposed, he said.

THE WITNESS: I did not say there was any seal of confidence imposed.

By Mr. Devlin:

Q. An international code of courtesy?—A. It is very often understood.

By Mr. Morphy:

Q. This Committee is to understand it was not given you in confidence?—A. I take it it was in confidence.

Q. Did you tell him you accepted it that way?—A. Yes, possibly, but I am not sure.

Q. You possibly did not.

By Mr. Boys:

Q. He did not ask you to keep this information confidential? You told me that.—A. I do not think he did.

THE CHAIRMAN: He says he considered it that way.

MR. MORPHY: He makes it confidential himself, as Auditor General.

THE WITNESS: Let me explain that: I may have a conversation with the Minister of Customs here (Hon. J. D. Reid); various things are talked over, and I would take it for granted that anything he told me was confidential.

By Mr. Stevens:

Q. Would it be possible for this profit, that you alleged to have been made by some parties, to be made without the knowledge of the Dominion Government?—A. Now, before answering that question, you have been stating that I have made statements here that go to the public that are only one-sided. That is why I prefer not to answer these questions until the Departments information is brought down.

By Mr. Davidson:

Q. You have suffered a change of heart?—A. I still maintain that it was my duty to report it to Parliament, and they could do what they are doing now or otherwise.

By Mr. Stevens:

Q. As Auditor General, which is really an enlarged position as an auditor, you have full access to all the documents pertaining to this transaction?—A. I have access to the documents they give me.

Q. Were you denied any documents by the Department?—A. No.

Q. Then you got all the documents pertaining to this that you wished?—A. I do not know about that, I could hardly answer that.

Q. You are the sole judge of that as an auditor?—A. Well, the transaction passed and closed.

Q. Not before you made an examination, Mr. Fraser, according to your own letter?—A. Yes, before I made an examination.

Q. But the information is in this letter that there was a possibility?—A. I was pointing out to the Deputy Minister of Marine what might happen, and from my experience with Canadian Vickers I did not think they would lose an opportunity to make—

Q. That is rather a serious charge against a reputable firm?—A. No, I do not think it is. A business firm makes all the money it can legitimately. I did not propose that it should so far as I was concerned.

Q. You asked for certain documents and got them?—A. I got them and passed the entry. I thought I had enough. I had the assurance of Mr. Johnston and I had the Order-in-Council which provides for a transfer. If there is any other document, I have not seen it.

By Hon. Mr. Reid:

Q. Did the Dominion Government lose anything on this transaction?—A. That depends on how you put it. That vessel when you parted with it was worth a good deal more money. You cannot replace it to-day.

By Mr. Stevens:

Q. Prospective profit?—A. We have the contract. If we have to proceed and build the vessel again, it will cost us a great deal more.

By Mr. Davidson:

Q. Was this transaction between the Russian Government and the Vickers concern directly, or through the mediation of an English company? Did they buy directly or make a contract with an Imperial company? Who made arrangements with Vickers?—A. Do you want me to give hearsay evidence again? According to the documents—

Hon. MR. REID: It might be as well, perhaps, as Mr. Fraser is coming on Friday to make his statement then of all he knows about that. Is there any objection?

MR. CARVELL: None whatever.

By Mr. Bennett (Simcoe):

Q. Was there a third person present at this conversation?—A. Only the two of us.

By Mr. Blain:

Q. Mr. Fraser, in so far as the contract between Vickers Ltd. and the Canadian Government is concerned, was there anything wrong in any way, or had you any suspicion of anything being wrong?—A. The contract for the construction of the vessel?—none whatever.

Q. It was carried out honestly?—A. So far as I know.

MR. CARVELL: There is an Order in Council, Mr. Blain, I have a copy of it here, and the Auditor General ought to have it, dated March 14, 1914, setting forth the whole transaction, and you will find it perfectly correct and straight.

Witness retired.

Mr. ALEX. JOHNSTON, Deputy Minister of Marine, called, sworn and examined.

By Hon. Mr. Reid:

Q. Perhaps, Mr. Johnston, you might make a statement in connection with this matter in your own way?

By Mr. Carvell:

Q. We are referring to the Russian ice breaker?—A. Yes, and to the transfer to the Russian Government, not to the matter of entering into the original contract, that is not being considered.

Q. That is not being criticized?—A. Well, in so far as the transfer to the Russian Government is concerned, the Department of Marine and Fisheries had absolutely nothing to do with the negotiations which led to the transfer of the boat. The very first intimation that the Department received was when copies of communications through the Governor General's office were received at the Department.

Q. Have you the date of them?—A. I have the date.

Q. We have it in evidence that it was some time in February, 1916?—A. How far it is permissible to refer to the documents, I do not know. The documents are Governor General's and Colonial Office documents, and as you know it will be necessary—

Q. I may enlighten you on that point. Mr. Fraser has already given evidence this morning, and the letter you wrote him on the 1st September, and extracts from the Order in Council with the cablegrams from the Colonial Secretary and also the reply to the Governor General have been put on the record?—A. Well, the receipt of these documents was the very first intimation that the Department had received that the transfer had been agreed to.

Q. Had been agreed to?—A. Had been agreed to.

Q. There is no evidence like that here.

By Mr. Devlin:

Q. Between whom?—A. A member of the Government.

By Mr. Boys:

Q. The Canadian Government?—A. Yes. A request came to the Canadian Government through the Governor General from the Colonial Office in London on behalf of the Government. Those cablegrams are in evidence. That is the first intimation that the Department had received that the transfer had been agreed to.

By Mr. Carvell:

Q. You do not mean to say that the transfer had been agreed to away back in February, 1916, when these cablegrams passed?—A. The transfer was agreed to then.

By the Chairman:

Q. In pursuance of those cablegrams?—A. If the cablegrams have been read there is no reason why they should be withheld any longer

By Mr. McKenzie:

Q. They are referred to in the Order in Council?—A. As a matter of fact, they are quoted in the Order in Council. If the Order in Council has been produced they are quoted there.

By Mr. Devlin:

Q. Prior to those cables, was there absolutely nothing in writing before the Department?—A. Absolutely not a single word either in writing or speaking in so

far as anybody connected with the Department was concerned, absolutely not a word. I speak for the Department, and I am quite satisfied I can speak in the same way for the Minister, because he told me that up to that time the receipt of those cablegrams, the matter of the transfer of this boat to the Russian Government, had never been mooted.

Mr. CARVELL: We accept that, but do not tell us anything more.

By Mr. Bennett (Simcoe):

Q. Tell us the date of the first cable?—A. 25th February, 1916.

By the Chairman:

Q. It shows on its face that it is the first communication. It says: "It is the wish of the Russian Government to acquire an ice breaker of the Canadian type"?—A. That cablegram was answered on the 26th.

Hon. Mr. REID: It is in the evidence.

By the Chairman:

Q. It says: "My advisers will agree to transfer of this vessel to Russian Government." What happened after that?—A. In due time both of these communications reached the Department, it would be some days subsequently, the exact date upon which they reached the Department I am not prepared to say.

By Mr. McKenzie:

Q. Before we pass from what the Chairman has read, would not the Minister of Marine be a party to the agreement making the transfer? The Government agreed to it?—A. Yes.

Q. And he was a member of the Government?—A. Yes.

Q. He would likely know at the time that the transfer was made?—A. Yes, he did; he knew at that time.

Q. It was made before you saw these cables?—A. Yes.

Hon. Mr. REID: The agreement.

By Mr. Carvell:

Q. You mean the principle, not the details?—A. I have a very good idea of what took place. I can only state that as my idea, if it would be acceptable. I have no hesitation in giving my view as to what happened.

Q. I have no objection, Mr. Johnston.

By Mr. Boys:

Q. Did you communicate your views at any time to Mr. Fraser?—A. When the issue was raised by the Auditor General, I do not know whether at his suggestion or at my suggestion, he came to my office, and I showed him the entire correspondence, and I told him: That is our story so far as we are concerned.

Q. Do you know when that was?—A. Well, I could not speak with any accuracy as to dates, because I made no mental note of it or official record of it. I think what happened was, that this despatch through the Governor General's office came to Council while Council was sitting, and, as a matter of fact, Council considered the matter and the reply was sent from Council.

By Mr. Carvell:

Q. There is a hiatus of five or six months between that time and the correspondence?—A. Yes.

Q. If you have any official information during that hiatus I think we ought to have it?—A. What happened in the meantime—our story cannot be properly told without the production of these papers, and so far as I am concerned, I am quite anxious that they should be referred to.

Hon. Mr. REID: I suppose these are replies to the Governor General, I have not seen them at all. I was asking Mr. Johnston to tell his story to the committee.

Mr. CARVELL: Mr. Johnston speaks about correspondence being confidential. I do not want him to produce before this committee anything that he considers confidential or concerning Imperial affairs or the war, or anything that would give advantage to the enemy. But it seems to me that there can be nothing of that kind in this correspondence, because the ice breaker has been completed and at work for some time and the transaction was closed.

The WITNESS: It will be necessary in order that the story may be told in full, that the reasons which prompted the forwarding of certain correspondence should be placed on record. If I may be permitted to make this statement that on the 26th February, 1916, this reply, which has already been read, was sent:—

“Your telegram of yesterday, respecting ice breaker. My advisers will agree to transfer of this vessel to Russian Government, and they will give every possible assistance to ensure delivery by middle of October, as requested.”

A few days subsequent to this, just the number of days I could not say, copies of this correspondence reached the department, and the minister discussed with me, then, the matter of transferring this ice breaker, and he advised me that the question had been fully considered and that it was determined that the department should not ask or make any profit on the transaction, by reason of the fact that it was almost as much to our own interests to do this as it was to the interests of the Russian Government, and that the conditions of the transfer would be that the moneys paid to the contractors, the Vickers firm in Montreal, should be returned to the department. That was the condition upon which the transfer was to be made.

By Hon. Mr. Reid:

Q. And our contract be transferred to the Russian Government?—A. The ice breaker was to be transferred to the Russian Government. Nothing was ever contemplated; the correspondence will show that there was nothing contemplated at any time, as far as the department of the Canadian Government was concerned, but the transfer to the Russian Government of the ice breaker.

By Mr. Carvell:

Q. Did you ever transfer to the Russian Government?—A. No, we did not as a matter of fact. On the 26th February we were asked, as the cablegrams will show, to facilitate the work of finishing this ice breaker.

By Hon. Mr. Reid:

Q. Which you agreed to do?—A. Which we agreed to do. We gave assurance that we would give every possible assistance to ensure delivery by the middle of October as requested. We went on from time to time expecting every day that we would hear something from the Russian Government or from the Colonial office with further reference to this transaction. We were hearing nothing, and on several occasions I telephoned to Mr. Miller, who is in charge of the Canadian Vickers, at Montreal as to whether he had any definite instructions about it, and he informed me that he had not. Finally he advised me that he was in receipt of instructions to make certain changes and modifications in the construction of the ship; the vessel was being constructed under the supervision of Mr. Duguid, who is the naval inspector of

the department. That official came to me after one of his trips to Montreal and said that the Canadian Vickers were making changes in the vessel at the request of the Russian Government; that he did not know anything about it, and did not know what attitude he should assume in respect to the changes that were being made.

By Mr. McKenzie:

Q. Just at that point can you tell the committee who was representing the Russian Government on the spot and who authorized those changes?—A. Nobody; they were receiving those instructions, evidently, from London. There was nobody representing the Russian Government at that time. Things went on that way until the 1st May, when Mr. Duguid again called my attention to the fact that he was continuing to inspect this boat, that changes were being made, and that he did not know exactly where he stood in respect to the work. Not having heard anything further, I wrote a letter for transmission to the Colonial Office, through the regular channel, on the 1st of May.

Hon. Mr. REID: This letter is marked "confidential," but we will read it to the committee.

WITNESS: This letter and other correspondence here should not go into the record without first getting permission to publish it.

Mr. CARVELL: I feel like being governed by Mr. Johnston's explanation, in regard to the correspondence which is marked "confidential." Apparently there is nothing in that letter which could not go in.

WITNESS: No; only the prevailing custom of the department that this correspondence should not be published without permission.

(Letter of 1st May referred to by witness, read for information of the committee.)

WITNESS: On 15th May a reply was received.

(Reply read.)

By Mr. McKenzie:

Q. Do you regard that as a reply to your letter?—A. Well, that is the only reply we got.

By Mr. Kyte:

Q. Your letter could not have been received at that date?—It was received, because it was founded on my letter.

By Mr. McKenzie:

Q. They make reference to a cipher telegram?—A. Yes, founded on my letter which went to the Secretary of State as a cipher telegram.

By Mr. Carvell:

Q. You accept this as an answer to your letter?—A. Surely.

By Mr. Morphy:

Q. Do I understand then that that meant that the Russian Government were from that time dealing independently with the Vickers Company, with an independent contract?—A. That is what subsequently transpired.

Q. Then Canada was waived out?—A. Yes, and, as a matter of fact, it might just as well be stated here that the Russian Government got an entirely different ship to the ship which we contracted for to be constructed at Vickers.

Q. More expensive?—A. Infinitely more expensive, an entirely different ship.

By Mr. Carvell:

Q. Have you the contract between the Russian Government and Vickers?—A. No, I have not.

Q. Can you get it?—A. I think we can get it.

Q. That is what we want?—A. That should be obtainable.

Q. Can you tell me one detail in which the specifications were changed, and how much it cost?—A. Well now, when it comes to that, I cannot do it.

Q. You made a pretty broad statement?—A. I did, because I felt quite satisfied in my own mind—I did not expect to convince the committee that such is the fact, but I am quite satisfied that it can be established from proper examination that there has been a tremendously increased cost in the production of the ship.

Q. Put that “tremendously” in dollars and cents?—A. I would hesitate to do that.

Hon. Mr. REID: I suppose that can be established.

Mr. CARVELL: If I had the two contracts we could tell.

WITNESS: If you can do it for half a million dollars you are doing well.

The CHAIRMAN: That accounts for a half million dollars right there.

By Mr. Devlin:

Q. Had they taken over the contract, would the cost to the Russian Government have been different?—A. That I do not know.

Q. Could you tell us to what extent the changes went? To what did the changes that were made in the original contract amount to?—A. I could not undertake to say.

Q. It would be more than ten or fifteen thousand dollars?—A. It would be certainly more than ten or fifteen thousand dollars. It would be more than ten times \$10,000. That is my opinion.

By Mr. Carvell:

Q. Have you compared the two contracts?—A. No, I have not.

Q. Have not compared the specifications?—A. No.

Q. You do not know in what way the specifications were varied?—A. I have no means of knowing.

Q. Then you are taking somebody else's ideas about this?—A. Yes, I am.

Mr. BOYS: Just the same as the Auditor General.

Mr. CARVELL: Not by any means.

By Mr. Bennett:

Q. Who was looking after the inspection of the vessel?—A. Up to a certain point, Mr. Duguid, of our department, had charge.

Q. Up to the last?—A. Yes, even up to the last, when the Russian inspectors arrived here, he still continued to be associated in an advisory capacity.

Q. Are you guided in your opinion as to the increase in value by any conversation with Duguid?—A. I am guided to a very large extent by what I am told by Mr. Miller of the Canadian Vickers.

By Mr. Carvell:

Q. Not by your own inspector? (No answer.)

By Mr. Bennett:

Q. How about your own inspector?—A. I have had conversations with our inspector and I am quite satisfied that, taking the changes made in the vessel and the methods adopted in rushing the construction of this ship, that the cost of the vessel was unquestionably added to.

Q. And your inspector and the Vickers-Maxim people agreed pretty much on the same figure as to the increase, from what you say?—A. I am not going to say, and for reasons I will disclose later, I did not go into that with any great care or detail.

By Mr. Blain:

Q. Where was the vessel to operate?—A. In the gulf and on the River St. Lawrence. That is where we had proposed to operate the ship.

By the Chairman:

Q. It had to be taken across the ocean?—A. It had to be taken to Archangel.

Q. Would your inspector be able to give us an accurate idea of the extra cost entailed by these changes?—A. He would not be able to give an accurate idea.

By Mr. Carvell:

Q. Is it not the fact that your inspector dropped out of the thing after the contract with the Russian Government was signed, and was it not agreed in the contract between Vickers and the Russian Government that they were to do the inspecting after that?—A. Yes.

Q. And your inspector would not know anything about it?—A. He would not know a great deal about it.

By Mr. Boys:

Q. He might not know of the actual increased cost, but he would know of the changes?—A. He would know of the changes if he took note of them—

By Mr. Blain:

Q. But he was associated in the matter up to the time the Russian inspectors arrived?—A. In a more or less advisory capacity.

Q. You said so?—A. Yes.

Q. He was up and down to the vessel?—A. Yes.

By Mr. Morphy:

Q. Give us the name of the witness who would know better than any other witness?—A. I am satisfied that the only people who would know, and the only way by which you can get even an approximately correct estimate of what the ship has cost, is by an examination by people competent to examine the books of the Canadian Vickers.

By Mr. Carvell:

Q. Who are they?—A. They are readily available, I am quite sure—any firm of respectable chartered accountants. I am referring now to the transactions in connection with the construction of any ship, and more especially in an organization like the Canadian Vickers.

Q. Do you mean that their books would tell me in what way the specifications were changed? We are not discussing cost but changes in their specifications?—A. The records of the Canadian Vickers will satisfy you to a hair's breadth, I am satisfied, as to the extent to which the original plans and specifications were modified, and I am therefore quite satisfied that their books will disclose with very great accuracy, the cost of the final placing in commission of that vessel.

Q. Will their books show the cost of the modifications in the specifications?—A. I think so, yes.

By Mr. Boys:

Q. It might be under another contract?—A. Yes.

By Mr. Devlin:

Q. Do you know where those books are kept?—A. The books unquestionably would be kept at the head office of the Canadian Vickers at Montreal.

Q. There is only one contract?—A. As far as we know.

By the Chairman:

Q. Is this the position of the Department: the Department had a contract with the Vickers Company for the building of the Hazen, and they simply transferred that contract to the Russian Government on repayment of the actual amount that they had paid?—A. Yes.

Q. The Russian Government changed the construction of the vessel, and had a special arrangement with the Vickers people for the changes?—A. Yes.

Q. And the Canadian Government had nothing to do with it?—A. They had nothing to do with it from the time the cablegram was sent agreeing to transfer the ship.

Q. And if a bigger price was paid by the Russian Government than was agreed to be paid by Canada, it was by reason of changes made in the vessel?—A. It was by reason of whatever happened between the Colonial Office and Vickers, London, and the representatives of the Russian Government in London, who absolutely ignored the Canadian Government and the Department of Marine and Fisheries in the transaction.

By Mr. Devlin:

Q. Why would they ignore them?—A. I do not know.

By Mr. Morphy:

Q. Does it not appear on the record that the British Government had accepted an order from the Russian Government for seven ice breakers, and that they wanted all they could get?—A. Yes, that was in the original cable.

By Mr. Blain:

Q. The reason the changes were made was that if the original contract were carried out the vessel would not suit?—A. I would not undertake to speak as to what the reasons were which prompted them to make these modifications. They made a contract with Vickers, Limited, in London, for certain changes, as I am advised, and I am further advised that further extensive changes were made in that contract before the ship was placed in commission.

By Mr. Carvell:

Q. For which they received extras over and above the contract price between the Russian Government and Vickers?—A. I do not know, but unquestionably they did.

By Mr. Boys:

Q. Do you know whether they operated under the transfer of this contract with extras, or under a new contract made between the Russian Government and Vickers?—A. They operated under a contract made between the Russian Government and Vickers, Limited; in London.

Q. And with that the Canadian Government had nothing to do?—A. Absolutely nothing.

Q. Can you give us a copy of the contract between this Government and the Canadian Vickers?—A. Yes.

Q. And then a copy of the contract between the Russian Government and the Vickers, Limited, London?—A. We can produce our own contract at any moment.

Q. How about the other?

Hon. Mr. REID: I do not know whether we can get it.

By Mr. Devlin:

Q. Have you a copy in the Department?—A. I do not think we have. I would not like to say positively. If it is in the Department we will produce it.

By Mr. Carvell:

Q. We are asking if you have it?—A. I am not quite sure about that. I have not had an opportunity of refreshing my memory about this, and I have not yet got the details in my mind, but we will produce it if it is in the file. I would like to follow this up. We sent that communication on the first of May, asking for some information. We thought we were entitled to some information from the Colonial Office as to what was going on. That was on the first of May and we waited until the 21st of June. We were still without any instructions, we were still without any information as to how this work was to be carried on, and our Inspector was still somewhat uncertain as to the policy he should pursue in respect to the modifications that were being made in the contract by Vickers, acting, as they said, on instructions from the Head Office in London, and after another discussion between Duguid and myself I wrote a second letter on the 21st of June, the first letter having been sent on the 1st of May.

By Hon. Mr. Reid:

Q. To the Under Secretary? A. Yes.

By Mr. Carvell:

Q. Who signed the answer to your letter of the 1st of May?—A. Bonar Law. Witness then read letter written by him on 21st June.

Q. Up to that time had your department authorized any change in the specifications?—A. Absolutely not.

Q. That is up to the 21st of June?—A. Up to the 21st of June.

Q. Up to the 21st of June you say the department had never authorized any change in the specifications—A. Had authorized no changes.

By Mr. Blain:

Q. Were you led to consider that the changes were extensive?—A. We were so advised.

Q. By your own officers?—A. Yes.

By Mr. Carvell:

Q. Not by your own officers?—A. Yes.

By Hon. Mr. Reid:

Q. Duguid said they were making changes?—A. At the request of the Russian Government.

By Mr. Carvell:

Q. Did he tell you what the changes were?—A. He may have told me, I only recollect it in a general way. In matters of this kind I cannot go into details because I have not sufficient technical knowledge to appreciate what the changes would mean.

By Mr. Blain:

Q. Do you know how many inspectors the Russian Government sent over?—A. Two, I think.

By Mr. Mackenzie:

Q. Did you receive a reply to your letter of 21st June?—A. On the 5th of July there came a telegram reading as follows:—

Telegram read by the witness.

By Mr. Carvell:

Q. Does it tell you what the additions were?—A. We will come to that. Now, here is my cipher telegram.

By Hon. Mr. Reid:

Q. Of July 5?—A. July 5.

Telegram read by the witness.

That is what we got.

By Mr. Bennett (Simcoe):

Q. Were there any other changes made beside those, do you know?—A. Yes, I am satisfied there were. There was one change that I know of myself, made subsequent to that, and it was about the only change I took any notice of. I saw the ship when she was practically completed, and the change that was particularly noticeable to me was the arming of the vessel—the placing of the magazine and the placing of elevators in the ship for the handling of ammunition. There were two elevators put in for the handling of ammunition, and a magazine, and they were very complete, modern and up-to-date.

Q. Were they provided for in the original contract?—A. No, we never contemplated having such things at all.

By Mr. Morphy:

Q. What was the vessel armed with?—A. With guns.

Q. Yes, I know, but of what calibre?—A. I do not know.

Q. How many were there?—A. That I do not know either. All I remember is seeing the magazine and the two elevators that were installed for the handling of ammunition.

By Mr. Carvell:

Q. Do you know whether that was provided for in the contract between the Russian Government and Vickers, or was it extra?—A. I do not know. We asked to be advised as to the modifications, and in the information that comes to us there is no indication as to whether they were provided for in the contract.

By the Chairman:

Q. It was not in your original contract anyway?—A. No.

Q. You did not intend to have such an armament cruising on the St. Lawrence?—
A. No.

By Mr. Boys:

Q. You still had the contract, it had not been taken over, and when all these changes were going on you wanted to know what your position was?—A. We still had the contract and we went along on the assumption that the Colonial Office had advised

the Russian Government that the Canadian Government was prepared to turn the ship over to them, and we were acting on the belief that the Russian Government had taken the necessary steps, as between themselves and the Colonial Office, to protect their own interests.

Q. But you were not definitely advised?—A. We were not definitely advised; there was nothing else ever occurred. I am satisfied that nothing else occurred to anybody else in connection with the department.

By Mr. Carvell:

Q. Just speak for yourself now.—A. Nothing else ever occurred to me. We were advised on the 28th July that Lt.-Col. Behrens was appointed to inspect the ice-breaker and would shortly leave Petrograd for Montreal for that purpose. That was from the Colonial Office. Things drifted along in this way until our attention was called to the matter by the Auditor-General.

Q. That is as far as your department is concerned?—A. That is as far as our department is concerned.

Q. And after the Auditor-General wrote you that letter then the Order in Council which has now been put in evidence was passed by this Government?—A. Yes.

By the Chairman:

Q. Did the Auditor-General go over the file with that information in it which you have given us now?—A. Yes.

Q. And he had that information before him before the Auditor-General's report was made up?—A. He had my reply to him.

Q. Why did you mark your reply private?—A. Because it was on this confidential file, and all the documents on this file are marked confidential.

Q. What do you mean by that—that it is Colonial Office correspondence?—A. Yes, and the clerk who typed the letter, in accordance with the usual practice, marked the reply confidential on the corner of the letter. I did not observe it at the time. I think if I had, I should have seen to it that the letter was not so marked.

Q. Will you please go through the file and see if you have a copy of the contract?—A. I am satisfied now that we have not. I know there was a reference of some kind to it, but I find that it is not a copy of the contract.

By Hon. Mr. Reid:

Q. The fact of the contract being made between the Russian Government and the Vickers Limited of England makes it a matter between the Russian Government and the Colonial Office. The arrangements were made by them, and all they asked us to do was to release them from the contract?—A. That is all they asked. We set the terms upon which the ship was to be delivered to the Russian Government, and in that we followed the practice adopted on two former occasions, when we had made similar transfers. We had given them the *Earl Grey* in the first instance.

By Mr. Carvell:

Q. That was a completed ship?—A. Yes, and the splendid service rendered by the *Earl Grey* led us to give them the *Minto* the following year.

Q. That was also a finished ship?—A. Notwithstanding the fact that our own service was being crippled by the transfer.

By Mr. Kyte:

Q. That was a direct sale to the Russian Government without the intervention of a third party?—A. There was no third party as far as we are concerned in this transaction.

Q. There was. This ship was under the control of the Vickers Company of Canada and was turned over by some other company to the Russian Government.—

A. No, it was under our control.

Q. It was in their hands.—A. But it was under our own control.

By the Chairman:

Q. You gave the Russian Government the other two ships at cost, the same as you did this?—A. Yes, we gave them to the Russian Government for very much less than their value.

By Mr. Devlin:

Q. This was not a similar case to that of the other two ships, at all. This ship was under contract, and you relieved the Vickers Company from the contract, you did not transfer your rights to any one else. In the other cases you sold the completed ships?—A. Yes.

Q. And in this case you released the Vickers Company from the contract they had with the Government?—A. No, we did not release them. What we expected would be done was that the Russian Government should have taken our place under the contract. That was the assumption upon which we proceeded from the very first day, and we thought that the Colonial Office had so arranged.

By Mr. Carvell:

Q. And now you believe that was not the case?—A. We know that is not the case. We know that a supplementary arrangement was made between the representatives of the Russian Government and Vickers Limited, of London, for a ship which was quite different to the ship we had contracted with the Vickers Company at Montreal, to construct.

By the Chairman:

Q. In other words if the Russian Government had chosen to avail themselves of the transfer of this contract, and made no changes, they would have got the ship at the same price we were paying for it?—A. As far as we were concerned, we advised the Russian Government to that effect.

Q. But the Russian Government preferred to make another contract with the Vickers Limited?—A. Yes, and that being the case we took it that as far as we were concerned, it was none of our business.

By Mr. Boys:

Q. You put the Russian Government in the position to take over the contract at your price?—A. We never had a word with the Russian Government—I never had a word with anybody in connection with the ship, or with the negotiations regarding it outside the Colonial office.

Q. But you did put the Russian Government in the position to get the benefit of this contract at the actual cost to the department?—A. That is all we wanted.

By Mr. Morphy:

Q. And you so instructed the Colonial Office?—A. Yes.

By Mr. Devlin:

Q. Did you put the Russian Government in the position of getting the full benefit of your contract?—A. We did.

Q. And did you put the Vickers Company in a position to make a new contract with the Russian Government?—A. We did not.

By Mr. Carvell:

Q. Did you ever tender to the Russian Government an assignment of your contract?—A. No, but we told them that we were prepared to transfer the contract to them.

Q. I want an answer to my question?—A. I have no hesitation whatever in letting the documents speak for themselves. They are a better answer than I can give you.

Q. What do you say?—A. I say that the Colonial Office were asked to advise the Russian Government that the contract was available to them.

Q. What do you say?—A. I stated that the Colonial office were advised.

Q. Now, Mr. Johnston—A. The Colonial Office were asked to advise the Russian Government that the contract was available for them.

Q. Did you ever tender it to the Russian Government?—A. We never communicated with the Russian Government direct, and for obvious reasons.

By the Chairman:

Q. The question has been put to you for the purpose of ascertaining whether or not the Russian Government could have availed themselves of the transfer of this contract?—A. Yes.

Q. In reply to that, I read from the telegram of the Department dated 26th February, as follows: "My advisers will agree to transfer of this vessel to Russian Government and they will give every possible assistance to insure delivery by middle of October as requested."—A. Yes.

Q. That was sent to the Colonial Secretary, who was doing all the negotiations on behalf of the Russian Government?—A. Absolutely.

Q. So that the Russian Government would be aware from the British Government that they could take advantage of the transfer of this vessel if they desired to do so?—A. We assumed so from the very first. There was no other idea in the mind of anybody connected with it.

Q. Could you compel the Russian Government to take a transfer if they did not want it?—A. We never gave that matter consideration.

Mr. CARVELL: The time for adjournment has come, and I would like, Mr. Chairman, if you would have Mr. Johnston at our call on Friday if we need him. I would also like to know if some of the members on this side could have the opportunity of examining that file.

The WITNESS: I think the discussion having arisen in connection with the offer made to the Russian Government, the cablegram of the 2nd September might well be communicated to the Committee.

Mr. CARVELL: We are willing to have it.

Cable of 2nd September read by witness.

By Mr. Carvell:

Q. That is your cablegram?—A. That is the Governor General's cablegram to the Colonial Secretary.

Q. From this Government to the British Government?—A. Yes.

Hon. Mr. REID: It is plain from that cablegram that, as far as this Government is concerned, we took every precaution to see that the Russian Government had every advantage.

Mr. CARVELL: I am glad of that. Is there any further correspondence?

Hon. Mr. REID: We are willing to show it.

By Mr. Davidson:

Q. Was that correspondence in the file that the Auditor General examined in your office?—A. No, this communication was subsequent.

By Mr. Stephens:

Q. He could have seen it last fall?—A. No, it was subsequent to the discussion I had with him.

The CHAIRMAN: That is in September, 1916.

Mr. CARVELL: The day after the Department answered the Auditor General.

The WITNESS: I had absolutely no other view than the view that all the facts were communicated by the Colonial Office to the Russian authorities as per the original authority in the cablegram of February 26. I fully counted upon the transaction having been properly done, and the first intimation that we had that there was anything of a suspicious nature was the letter of the Auditor General.

Mr. CARVELL: Is there any reason why the members on this side of the committee should not have an opportunity of examining the file?—

Hon. Mr. REID: I have never seen the file before. Mr. Johnston can go over this file, and anything he thinks is really of a strictly confidential nature, he can put aside until the Minister comes back, or some member of the Government. In the meantime I have no objection to a member of the committee on the other side looking at these documents.

The CHAIRMAN: I do not see any objection to that. There is nothing in the correspondence, so far as you know, Mr. Johnston, that any member of this committee should not look at?

WITNESS: No, nothing that I should not like to have them see.

Mr. CARVELL: We would like to have an opportunity before Friday morning of looking over it. Whom could we summon from the Vickers Company?

Mr. MORPHY: What is there to investigate?

Mr. CARVELL: If you think you are through with the investigation you are very much mistaken.

The CHAIRMAN: Any witness you want we will subpoena.

Mr. DEVLIN: They would have a copy of that contract between themselves and the Russian Government.

WITNESS: I suppose so.

Mr. DEVLIN: Who would have it?

WITNESS: The general manager.

By Mr. Carrall:

Q. Who is the general manager?—A. Mr. P. L. Miller

Mr. CARVELL: I will move, seconded by Mr. Devlin, that Mr. P. L. Miller be summoned to appear before the committee, to produce the original contract with the Russian Government and the notifications, and also that Mr. Duguid be summoned.

The CHAIRMAN: Very well.

Motion agreed to.

Committee adjourned.

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OFFICIAL REPORT OF EVIDENCE

TAKEN BY THE

PUBLIC ACCOUNTS COMMITTEE

IN CONNECTION WITH

ICE BREAKER

No. 2—Friday, May 4, 1917

NAMES OF WITNESSES.

A. JOHNSTON, DEPUTY MINISTER OF MARINE OTTAWA

P. L. MILLER, GENERAL MANAGER, CANADIAN VICKERS . . .



OTTAWA

PRINTED BY J. DE L. TACHÉ,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1917

MINUTES OF EVIDENCE.

HOUSE OF COMMONS, OTTAWA,

COMMITTEE ROOM No. 301,

FRIDAY, May 4, 1917.

The Select Standing Committee on Public Accounts met at 11.05 o'clock a.m., the chairman, Mr. Middlebro, presiding.

The Committee proceeded to the further consideration of certain payments to the Canadian Vickers, Limited, for the construction of an icebreaking steamer (the *J. D. Hazen*) for \$998,583.

The examination of Mr. ALEX. JOHNSTON was resumed.

By Hon. Mr. Reid:

Q. Mr. Johnston, you were telling your story in connection with this case when we adjourned on Wednesday. Will you go on now from where you left off?—A. Just as the Committee arose, I had submitted that we had suggested to the Colonial Office our readiness to transfer this contract to the Russian Government.

By Mr. Devlin:

Q. What did you say the date of that letter was?—A. September 2, 1916. To that telegram as forwarded, there was a reply received in due time, under date of October 21, and the figures of the contract entered into between Vickers Limited in London and the Russian Government were conveyed to us for the first time. That was the first intimation we had as to what the figures were.

By Mr. Carvell:

Q. What is the date of that reply?—A. October 21, and the telegram intimated that the contract had been concluded in the early part of February, 1916, with Vickers Limited of London.

Q. Had we not better have the telegram? Is there anything in it that is confidential?—A. I pointed out the other day that the whole thing is confidential. I expressed a willingness—these telegrams were read here in full the other day; I am quite satisfied to read this one in full.

Mr. CARVELL: I think it would be much better.

By Hon. Mr. Reid:

Q. Is there anything in the cable referring to matters other than in connection with the ice breaker?—A. No, there is not.

Q. Then it is all right to read it?—A. (The witness read the cable of October 21.)

Q. What answer was sent to that?—A. That was received and the following answer was prepared and sent.

By Mr. McKenzie:

Q. What is the date?—A. October 21; it is in answer to our telegram of September 2.

Q. Last year?—A. Yes.

Q. The vessel would be about completed then?—A. No; rapidly approaching completion.

Q. I remember seeing her in North Sydney harbour some time last fall?—A. That would be some time in November or December. As a matter of fact, I think it would be in December. The draft of the cablegram is as follows.

By the Chairman:

Q. What date?—A. October 25, 1916. (The cablegram was then read by the witness.) That was our answer. We sent a telegram on the 6th—at least, we sent the draft. Here I might observe that the dates upon which the telegrams were sent may not be exactly correct. The dates I have here are the dates upon which the drafts are sent.

By Mr. Carvell:

Q. You mean, sent to the Under Secretary of State for Canada for transmission?—A. Yes. Of course, the dates on which the telegrams were actually forwarded were not necessarily the same.

Hon. Mr. REID: There may be a difference of a day or two.

Mr. CARVELL: We met that situation in many cases last year in the Fuse Inquiry before the Royal Commission.

The WITNESS: That is inevitable.

By Mr. Morphy:

Q. Is this Committee to assume, when you speak of a draft having been sent, that that very message was sent?—A. Quite.

Mr. Carvell:

Q. In other words, you do not send it direct to the Colonial Office, but you send it to the Under Secretary of State?—A. Yes, who, through the Governor General, transmits to the Colonial Office.

Hon. Mr. REID: There is a difference of a day or two often.

Mr. CARVELL: We found that in the Fuse Inquiry, in many cases, the cablegrams did not bear the date they were drafted. That is the explanation and there is no doubt it is true.

By the Chairman:

Q. What is the next communication after October 25?—A. The next communication was on the 6th November.

Q. Where is the telegram of November 3? We have not got that yet?—A. What is the last telegram I read?

Q. October 25. You read the answer of October 25 stating that the contract was \$998,000?—A. Here is the reply of November 3. (Read by witness.) The first paragraph of this cable is in accordance with the information submitted to the committee at its last meeting by the Auditor General. He has the same information. May I also say in connection with this telegram that I learned definitely after its receipt that Canadian Vickers had never been communicated with one way or another in connection with the transfer of this contract. Whether that is material or not, is for the committee to determine.

By Mr. Morphy:

Q. By anyone?—A. By anyone.

By Mr. Boys:

Q. You mean the arrangements were made in London?—A. The representative of the Canadian Vickers, Limited, in Montreal, that is my understanding at the time.

Q. The English house?—A. The English firm of Canadian Vickers concluded the arrangements.

Mr. CARVELL: In other words, it is the hand of Sir Trevor Dawson again.

Hon. Mr. REID: I do not think insinuations of that kind should be made unless we have evidence.

Mr. CARVELL: We have found that gentleman's hand so often in the last two years.

Hon. Mr. REID: I do not think that is fair.

By Mr. Carvell:

Q. That cable was from the British Government?—A. Yes.

By Hon. Mr. Reid:

Q. What reply did you send?—A. On the 6th November, this draft was prepared and forwarded: (Draft read by the witness.)

Q. What is the date of that?—A. The date of that is the 6th November. I do not know whether it is material, but it is material from our point of view, at all events, to point out that when this suggestion came to us, that we should commence negotiations about the matter, the whole transaction was concluded; we were asked to commence negotiations about a matter which had been already concluded, and in connection with which we had been entirely ignored. We took the position that we should not commence the negotiations at that late date; that was the position taken by this Department.

By Mr. Devlin:

Q. But at that time the contract had not been formally transferred?—A. It had not, but we had agreed to transfer the contract and we asked in this telegram that the Russian Government should give us instructions, we said that we were awaiting instructions to formally transfer the contract for the construction of the vessel. We offered and agreed to do so.

By Mr. Carvell:

Q. As a matter of fact, did you ever go any farther in the way of making an assignment or transfer of the contract?—A. No, I do not know that we did; we offered to withhold clearance of the vessel until such time as arrangements, satisfactory to the Russian Government, were concluded. They were conducting the negotiations, we were not.

By Mr. Bennett:

Q. Do you know what date the Russian Government made their contract?—A. The 6th of June, and the terms of the contract as disclosed by the correspondence were agreed to in the early part of February.

By Mr Morphy:

Q. When Russia made her contract did she pass it through the British Office and the British Vickers?—A. We have absolutely no information on that.

Q. But you have information that Russia did make her own contract?—A. We have that stated in the correspondence.

By Mr. Boys:

Q. In connection with the contract for this vessel did you learn, or did you get any information as to whether the new contract was for this vessel alone, or did it include this vessel and other vessels?—A. That I do not know; I have no information what the contract was, not having seen it.

By Mr. Carvell:

Q. Did you not read a cable showing that the contract was for this vessel alone, at £330,000, and there were the items of the salvage pump, the steam winch, the diving apparatus, and the steam launch included?—A. Yes.

Mr. Boys: There is no doubt that the price fixed upon for this vessel was just as you say.

By Mr. Carvell:

Q. What was the reply to that cablegram?—A. To that cablegram there came a reply; it was sent on the 6th of November, and on the 27th of November I received a cablegram marked "Urgent and Secret, Iceberg," through the Colonial Office:

Your telegram of November thirteen——"

The CHAIRMAN: We have not got that telegram of the 13th?—A. I take it that this draft telegram that we submitted for transmission on the 6th, was not dispatched until the 13th, that is the only explanation of that, I can give.

By Mr. Carvell:

Q. Probably the answer would indicate whether or not it was a reply to that telegram which you have read?—A. There is not the slightest doubt that it is a reply to that telegram (reads cablegram).

Q. Who signs that?—A. The Colonial Secretary.

Q. What does that reference at the beginning to "C.I.R." mean?—A. I want to make a statement to the Committee in that connection. "C.I.R." was new to us; we had not the slightest idea what that meant; I called up the Under Secretary of State, Sir Joseph Pope, to ascertain if he had any idea what it meant, and he said he had not. We communicated with the officials at the Governor General's Office to ascertain whether they knew what "C.I.R." meant, and they did not. That was the first information that reached the Department that there was any other person in the negotiations in this matter other than the Department, the Colonial Office and the Russian Government. We wanted to avoid, as far as possible, the possibility of any reference such as that made, I think, by Mr. Kyte yesterday, as to the intervention of any third party, and I was resolved, and the Minister himself was resolved, that there was not any intervention by any other Department or person. So we resolved before dealing with this telegram that we must know who this C.I.R. was, and we proceeded to find out. There is a further telegram on the 28th, this telegram, I have just read was dated on the 27th, and it was immediately followed by a telegram on the 28th, which was practically received at the same time as the telegram I have just read. It is "Secret and Urgent, Russian Icebreaker."

By Mr. Bennett:

Q. From whom is this?—A. From the same source. It is dated the following day and my present recollection is that they were practically received by us at the same time. There again we have "C.I.R." which was entirely new to us, and I have already said that we endeavoured to ascertain from the Under Secretary of State and the Governor General's office whether they could enlighten us as to who "C.I.R." was, but they were unable to do so. Accordingly on the 29th November we sent a letter to the Under Secretary of State's office, and when I say that these telegrams or letters are

dated on the 29th of November, I mean that is the date of the reference by us or the date on which they were received by us as the case may be; in that letter we acknowledged the receipt of the cablegram. On the 30th November there was a further telegram. (The telegram was read).

By Mr. Carvell:

Q. The telegrams mentioned in the opening words were from the Colonial Office?
—A. Yes. We forwarded this reply at once.

Q. What is the date?—A. As a matter of fact, it so happens that the draft is not dated, but I am quite satisfied——

By Hon. Mr. Reid:

Q. It would be within a day or two after?—A. The reference was made to us on the 1st December, and I am quite sure it would not be later than the following day.

Q. It may be referred to in the reply?—A. For some reason, the stenographer in typing the draft did not put date line on as is customary. (Undated cablegram read by witness). In that connection let me say, that we were again anxious not to negotiate, and determined not to negotiate, with anybody other than the Colonial Office or the Russian Government in connection with this business, and if there was a committee that sprung up towards the end we determined that we should know nothing of it.

By Mr. Carvell:

Q. It looks to me as if a committee sprang up pretty early in the game?—A. It is very evident that there was, but I say this, there is absolutely nothing to disclose that we ever had any knowledge of it, and I say, in the most solemn fashion, that until that intimation was conveyed in this cable, nobody connected with the Department of Marine and Fisheries had any intimation that there was one. I say that.

Q. Mr. Johnston, we are not saying that there was?—A. I do not want the impression to go abroad you made the observation, and very properly, that it seems to you that there did spring up a committee quite early in the game. That may be. At all events we knew nothing of it.

Q. What is in my mind would not be evidence. Personally from what I learned a year ago in connection with other matters, I do not believe that the real game started in your Department, if it is any satisfaction to you to know what my personal opinion is.

By Mr. McKenzie:

Q. Did you ever discover what "C. I. R." was?

Hon. Mr. REID: He is coming to that now?

The WITNESS: The following is a telegram dated 1st December, referred to us on the 2nd December: (Telegram read.) Again, just let me refer in passing to the fact that this is the first intimation that we had that a Commission was dealing with the matter.

By Mr. Carvell:

Q. What was the date of that telegram?—A. December 1. In answer to that we sent a telegram as follows: (Telegram read.) That was, as to whether the Russian Government was satisfied.

Q. What was the date of that?—A. December 7. On the same day, later in the day, there came a telegram dated December 6, marked "most urgent." (Telegram read).

Q. Does that mean that Vickers, Limited, in England refused delivery of the vessel until their claims were paid?

Hon. Mr. REID: They would withhold delivery of the vessel.

The WITNESS: (Re-reads paragraph of telegram referred to).

By Mr. Carvell:

Q. It says that they must have their money?

Hon. Mr. REID: It is only reasonable that they should have their money.

By Mr. McKenzie:

Q. Perhaps you would make plain to the Committee what the Government of this country, or your department, was to decide?—A. We expected the Russian Government—

Q. The cablegram says that the decision of your Government was urgently looked for. What did your department have to decide in the matter?—A. We had to clear the vessel. We had to grant clearance of the vessel, which we told them we would withhold until such time as the Russian Government and the Colonial Office were satisfied that the vessel should be released.

Q. That was an ordinary matter of Custom House clearance?—A. It is a matter that we can exercise the right to withhold clearance. That telegram reached the department late in the afternoon, and it was followed in the course of the evening by a further cablegram which was telephoned to my house as an urgent cablegram, received by the Governor General, and was to this effect: (Cablegram read.) Now, on getting that telegram, which was communicated to me over the telephone, it was pointed out to me that the matter was of very great urgency, and that it was necessary, and I fully realized the importance of it in view of the statements contained therein, that there should be no further delay and I made up my mind at all events, that no matter what the difficulties were we would not be justified in holding clearance from the vessel any longer. I reached that conclusion by reason of the fact that the time was rapidly approaching when I knew it would be exceedingly difficult for the vessel to get into Archangel.

By Mr. Carvell:

Q. There would be more difficulty I think in getting out of the St. Lawrence?—A. No, we had no difficulty at all about the St. Lawrence, because we knew that usually she could get out the St. Lawrence until about up to the 1st January. I had also before me the recollection of what the *Minto* had been able to accomplish the year before in Archangel, the result of which had been most important, both to the Russian cause and to ours. I therefore felt that no matter what difficulties might have arisen as between the Russian Government, and the Colonial Office and ourselves, we would not be justified in withholding clearance of the vessel any longer, and early in the morning I got to my office and prepared a memorandum setting forth the fact that it was inadvisable to further delay the clearance of the ice-breaker in view of the importance of the services which the vessel would render to the allied cause. I submitted that memorandum to the minister for his approval, I discussed the matter with him, he approved of it, and clearance was granted to the ship.

Q. What date was that?—A. That was on the 8th December, 1916.

By Hon. Mr. Reid:

Q. Does that end the story as far as we are concerned?—A. That ends that part of the story.

By Mr. Devlin:

Q. Were there any telegrams between your minister, Sir Trevor Dawson or the British Vickers?—A. Absolutely not one single line or word passed except what is disclosed in this fyle here (pointing to Department Fyle.)

By Mr. McKenzie:

Q. Who owned the vessel on the date of the clearance?—A. We held, at least I think we held, up till the date upon which we granted clearance that the property of the vessel was in us.

By Mr. Bennett:

Q. In whose name was she registered when she cleared?—A. She was registered when she cleared in the name of the Russian authorities. A provisional register was granted to the vessel.

By Mr. Boys:

Q. Why would "clearance" change the property in the vessel?—A. I do not know really that I could very well answer that question.

Q. My question is this, up till the time of the clearance of the vessel you say that the vessel was the property of the department; I infer from that that you consider that at that time the property had changed, and I wanted to ascertain why it had changed, but apparently you do not know anything about that?—A. I am not prepared to say.

By Hon. Mr. Reid:

Q. Was it before that the department received their money back?—A. Oh, yes.

Q. How long before that?—A. Several months, that was in July.

Q. Would not that to all intents and purposes change the ownership?—A. We did not so regard it.

By the Chairman:

Q. The vessel was in the shipyard, they had not been paid for it, would it not belong to the contractors?—A. It is a technical question, and I would rather not answer it, because I am not sufficiently familiar with the law.

By Mr. Carvell:

Q. I do not imagine the Canadian Government is going to claim it back again?—A. We would be very glad to get it back, but it has done better work where it is than the vessel could ever have performed for us during the same period.

By Mr. McKenzie:

Q. There is only one way by which the transfer of vessel property can be effected under the Merchant Vessels Act?—A. Quite right.

By the Chairman:

Q. Was the certificate of registration given to the Vickers Company or to the representative of the Russian Government?—A. I have not that information here.

By Mr. Boys:

Q. Where was this vessel registered?—A. I will have to find that out. My present recollection is that the vessel was provisionally registered at the port of Montreal. The officers of the department who attend to the registration of vessels

would be more familiar with that than I am, because it is a matter that is dealt with entirely separately from the other business of the department.

Q. You do not know whether there is any bill of sale registered or not?—A. I do not know, but that we could find out.

By Mr. Devlin:

Q. You never had any communication with the Russian Government to tell them that an exorbitant profit had been made?—A. No, we never have.

By Hon. Mr. Reid:

Q. Did you discuss the whole matter with the Auditor-General?—A. Yes. But as to the latter part of the correspondence, no, I had no discussion with the Auditor General after the occasion upon which he wrote the letter and I do not know whether it was before or after that letter that he was at my office, I cannot recall.

By Mr. Morphy:

Q. Do you suggest to the Committee now, after you have had an opportunity of refreshing your memory, that having regard to all the correspondence that you or your Department might, directly or indirectly by negotiation or communication or otherwise, have done anything further than you did do to aid the Russian Government?—A. I cannot suggest anything that we left undone to give the Russian Government every opportunity of availing themselves of the benefit of the contract which we had expressed our willingness to place at their disposal.

By Mr. Carvell:

Q. Would there have been any legal or diplomatic reasons why you could not communicate directly with the Russian Government?—A. There would be diplomatic reasons.

By the Chairman:

Q. One of those cablegrams says that in your communications with the Russian Government, through the Imperial Government you named the price at which you made the contract originally, is that so?—A. That is so. We assumed that the Russian Government, having concluded the arrangements for the acquisition of this vessel with Vickers, Limited, London, and with the Colonial Office, we naturally, assumed, and I think it would be apparent to most people, that they had made themselves familiar with the terms of the contract which were immediately available for them when dealing with the Vickers, Limited, at London.

By Mr. Devlin:

Q. Who was acting for the Canadian Government, just at that time, in connection with the transfer?—A. The Colonial Office, in so far as anybody was acting for them.

By Mr. Boys:

Q. You were acting yourself, were you not?—A. Only in the sense that they asked us what we were prepared to do.

Q. They were asking you for the Russian Government?—A. Quite so.

Q. And you were acting for the Russian Government throughout?—A. Yes.

By Mr. Carvell:

Q. Would it not be fair to say that the British Government were a sort of intermediary, that they represented both the Canadian and the Russian Governments?—A. I think that is a fair way of putting it.

By Mr. Ross:

Q. Did you have any communication with the High Commissioner in London, in reference to the matter?—A. Not one single word.

By Mr. Boys:

Q. At the outset you suggested a transfer of the original contract?—A. Yes.

Q. And you repeated that suggestion two or three times?—A. Yes.

Q. Now, going away back to the spring, to the 26th February, 1916, when you first suggested the transfer, that you had agreed to transfer, that was the language?—A. To the Russian Government.

Q. From that time you maintained that attitude, as I understand it, up to the 8th of December?—A. Yes.

Q. And prior to that date you had gone a step further and had made the statement that you would refuse clearance.—A. Yes.

Q. And then in the end you prepared that memo when you came to the conclusion that the urgency of the situation was such that the vessel should not be withheld longer, and that you had done all you could to protect the Russian Government?—A. I reached that conclusion, rightly or wrongly, I discussed the matter, on the evening that the telegram was communicated to me by 'phone—I have a more distinct recollection with regard to that telegram, than I have with respect to any other—Sir Joseph Pope was the only officer available at the time, and I discussed it with him, and he shared my view; I am quite sure if he were here he would confirm my statement that he was more strongly of that view than I was, that no matter what the difficulty was the urgency of the situation was such that the clearance should no longer be withheld.

Q. Do you know of anything that has been done to release the rights of the Department against the Canadian Vickers under that contract unless it is the clearance?—A. No.

Q. Do you know of anything that has been done by the Department to release your rights under the contract with the Canadian Vickers Company unless it was the clearance?—A. No, I do not.

By Mr. McKenzie:

Q. Did you give the Committee the date of the contract between the Russian Government and Vickers, Limited, London?—A. Yes, I think there is something here which says the contract was concluded in June—the contract was signed June 7, 1916.

Q. And the first intimation you had about the negotiations was in February?—A. February, yes.

The CHAIRMAN: He said the negotiations were concluded in February, and the contract was signed in June.

By Mr. Carvell:

Q. Now, will you go back to the cablegram of the 21st October, have you that cablegram there?—A. Yes.

Q. Is not that the one in which the information was conveyed to you as to the price and conditions of the contract?—A. The price is stated here.

Q. Will you read that portion of it which deals with the price to be paid, etc. (Extract read by witness.)

Q. That is not the one which makes reference to the steam launch and other additions?—A. No, that is the one of November 3rd. The only material additions to the construction of the vessel which the Russian Government included in the contract price of £330,000, was the salvage pump, the diving apparatus, the 30-foot steam launch, and the towing winch.

Q. You would assume from that that the Russian Government adopted the Canadian specifications under which the ship was to be built for \$998,000?—A. Yes.

Q. Plus those four items, and the price was to be \$330,000.—A. Yes.

Q. And is there also something there which states that further additions were to be made which would be extras to the second contract?—A. Yes, other additions were made which involved £16,100.

Q. As I figure that out, the second contract would be around \$606,000 more than the Canadian contract, but in that these four items would be included?—A. Yes.

Q. In addition to that there were £16,100, or practically \$80,000, extras on the second contract which would have to be paid for besides the \$330,000?—A. Mr. Duguid is here, and, of course, he knows as to that. I have not any difficulty, however, in my own mind about it, that the statement I made here yesterday with respect to the additions to the original cost is dangerously near being accurate.

Q. What was your statement?—A. That it cost ten times ten thousand dollars. I see the statement was made in evidence. I had an opportunity of looking over the evidence that was given at the previous meeting of this committee, and the suggestion was made there that it would probably amount to \$10,000. I would still rather say that my statement that it would be ten times that amount is nearer the fact.

Q. Mr. Johnston, you mean that would be for those four items, or the changes that were made?—A. I mean for the changes that were made in the construction of the ship.

Q. You admit now they got \$80,000?

Mr. BOYS: When the new contract was made there were £30,000 of additions to the old contract?

Mr. CARVELL: No.

Mr. BOYS: And some extras besides.

Mr. CARVELL: You are in error. The original contract with the Canadian Government was for \$998,583. According to this evidence, the contract between Vickers, Limited, and the Russian Government was £330,000. If you convert that into dollars, you will find that it is about \$600,000 more than the Canadian contract.

Mr. BOYS: What I am contending, rightly or wrongly, is that there were extras and additions which amounted to—

Mr. DEVLIN: £16,000.

Mr. BOYS: More than that. There are two items—one of £30,000 and one of £16,000.

Mr. CARVELL: You are wrong.

Mr. BOYS: I may be wrong.

Mr. BENNETT (Simcoe): Let the engineer speak.

Mr. CARVELL: The engineer could not give us the construction of the contract. He could tell us what the addition was.

Mr. BOYS: There are cables referring to two distinct items. Let them be read to make the matter clear.

Mr. BENNETT (Simcoe): Let the representative of Vickers give the real figures.

The CHAIRMAN: Mr. Johnston read a cablegram saying that the new contract was £330,000. In that was included some additions which cost £16,000.

Mr. CARVELL: You are wrong, Mr. Chairman.

The CHAIRMAN: Mr. Johnston might read the cable.

The WITNESS: (Re-read the cable alluded to.)

Mr. CARVELL: It is a question now for some technical man to give us that information.

Hon. Mr. REID: We have Mr. Duguid here.

Mr. CARVELL: The only question involved here, as to the bona fide of this transaction, is the value of those four items.

Mr. BOYS: I would not suggest that for a minute.

Mr. CARVELL: Any additions or changes are provided for in the £16,000 of extras.

Mr. MORPHY: Is this an investigation on behalf of the Russian Government who may have paid too much? Why should we go into that?

The CHAIRMAN: As it appears to me, the Canadian Government have done all they can to give the benefit of this contract to the Russian Government. At the same time it would be interesting to know whether the Russian Government secured that benefit.

Mr. MORPHY: It might not only be interesting to us but interesting to them.

Hon. Mr. REID: I understand that the representative of Canadian Vickers is here. Would it not be well to wait until we come to that point when he gives evidence?

Mr. STEVENS: There is this point, Mr. Chairman: It may be that the terms of the new contract with the Russian Government and Vickers, Limited, are entirely, or largely, different from the terms of the Canadian contract.

Mr. CARVELL: The cablegram says not.

Mr. STEVENS: We can find out from the representative of the Canadian Vickers what changes were made and what was the value.

The CHAIRMAN: That is the point at issue.

Hon. Mr. REID: Before we come to any conclusion, we should hear all the witnesses.

By Mr. Boys:

Q. I want to have a distinct understanding as to what portion of the correspondence that you have read to this Committee the Auditor General saw, or, what portion he did not see?—A. He did not see anything after the 25th August, that is, as I understand, the date upon which he wrote his letter.

By Hon. Mr. Reid:

Q. That is, in so far as your Department is concerned?—A. Yes.

By Mr. Bennett (Simcoe):

Q. He had knowledge of the Russian Government's contract of the 6th June. Had that been communicated to him by you?—A. Absolutely not. The only correspondence that he saw, that I was able to show him, was that we had up to that time.

By Mr. Boys:

Q. I would like to draw your attention to that communication of September 1.—(Consults file.) That is my letter.

Q. This is the paragraph I have in mind, paragraph 4: (Reads.)

The Department does not "propose to justify the placing in the hands of the Canadian Vickers Company an opportunity to make a profit of possibly \$300,000.00 or \$40,000.00." If any such opportunity shall be given to Canadian Vickers, Limited, it will be through other sources than this Department.

A. Yes.

Q. Did the Auditor General see that communication?—A. That is my letter to the Auditor General.

Q. That was to the Auditor General?—A. That is the letter. Unfortunately, through a mistake on my part, which I very sincerely regret, it was not published in the Auditor General's report.

Q. That is the one marked "confidential"?—A. Yes, through an oversight entirely. I cannot too much express my regret for it.

By Mr. Stevens:

Q. Did you ever have any communication from the Auditor General as to whether there would be an objection to publishing it?—A. No, I have not.

By Hon. Mr. Reid:

Q. That was not disclosed publicly until the preceding meeting of this Committee when it was read by the Auditor General?—A. Not, by me, certainly not. There was no reason why it should not have been.

Q. If there was no reason why it should not have been disclosed the other day, there was no reason why it should not have appeared in the Auditor General's report?—A. No, apart from the technical objection that the communication was marked, as I have already observed, in error "confidential."

Q. Were you asked by the Auditor General to release it?—A. No.

Q. The Auditor General refrained from publishing it of his own accord?—A. Oh, yes, surely.

By Mr. Carvell:

Q. Have you among those papers a copy of the contract between Vickers, Limited, and the Russian Government?—A. No, I have not.

Q. Has a copy ever been furnished your Department?—A. Absolutely not.

Q. Has a copy ever been furnished to you individually?—A. Never.

Q. Have you, or has any member of the Department, so far as you know, ever seen a copy of that contract?—A. So far as I know, no.

By Mr. Devlin:

Q. Where did you get your information outside of these cablegrams as to the contents of the contract?—A. I have absolutely no information as to the contents of the contract, only what is disclosed in those cablegrams, and what I learned from our inspector, Mr. Duguid, who witnessed the progress of the work from time to time. He satisfied me that changes very much different to the changes disclosed in the contract were made.

By Mr. Carvell:

Q. Eighty thousand dollars worth of them?—A. Eighty thousand dollars worth would go a very short distance in making the changes made in the ship.

Mr. STEVENS: Why can't we have the facts?

Mr. CARVELL: We are coming to them.

By Mr. Boys:

Q. What I had in my mind a few moments ago was the communication of September 2. Did the Auditor General see that?—A. No.

Witness retired.

Mr. L. P. MILLER called, sworn and examined.

The CHAIRMAN: Mr. Carvell, you had better proceed with the examination.

By Mr. Carvell:

Q. Mr. Miller, you are the representative of Canadian Vickers, are you?—A. Yes.

Q. How long have you occupied that position?—A. About four years.

Q. Then, you were their representative at the time the contract was made with the Canadian Government to build the ice-breaker?—A. Yes.

Q. Have you a copy of the contract between Vickers, Limited, and the Russian Government?—A. Yes.

Q. Will you produce it, please?—A. Yes. (Contract produced.)

By Hon. Mr. Reid:

Q. Is that the contract dated in June which has been referred to?—A. Yes, June 7.

Q. That is in accordance with the cable of June 7.

By Mr. Carvell:

Q. Will you please read the contract?—A. The contract has about twenty-five pages.

By Mr. Morphy:

Q. Are you familiar with the contract?—A. Yes.

Mr. CARVELL: I was asked to examine this witness, and I think I ought to be allowed to do so. Perhaps I can expedite matters.

The WITNESS: I think I know the part where I can shorten it up, Mr. Carvell, and then I will hand it over. I can give you the gist of the whole contract and then you can verify it. (To the Chairman:) May I make a statement.

The CHAIRMAN: Yes, then we can verify it by looking at the contract.

The WITNESS: All I want to say is this: That any information we have in Montreal is at your service. We have absolutely nothing to hide. I have brought as much as I think you want to see in my bag—I have plans, specifications, the new contract, photographs and anything you want, and any gentleman can have the use of that bag and its contents.

By the Chairman:

Q. What is the date of the contract?—A. June 7.

Q. Between whom was it made?—A. Made between the Russian Government Committee in London and Vickers, Limited.

By Mr. Morphy:

Q. What year?—A. 1916.

Mr. BOYS: Is that the Canadian Company?

Mr. CARVELL: It is the parent company.

By Mr. Carvell:

Q. Your company in Montreal is called Canadian Vickers?—A. Canadian Vickers, Limited.

Q. What were the conditions of that contract, and if you can pick them out, read the clause or clauses referring to the specifications.—A. The contract goes right down here (indicating paragraphs) and to all intents and purposes is exactly the same as the contract between us and the Canadian Government, with the exception that down below here, in clause 8, there are the following conditions. I had better read that clause.

By Mr. Boys:

Q. Before you come to that, would it not—

The WITNESS: Here is the whole Clause 8. (Reads):—

It is understood that this Contract provides for the delivery of the Ice-breaker constructed in both hull and engines on the exact lines specified in the hull and machinery specifications as agreed to between the Canadian Government and Canadian Vickers Limited, modified only to the extent required by the additions already agreed to and covered for in the price accepted by the Russian authorities and any modifications that may have been mutually agreed to between Canadian Vickers Limited and the Canadian Government up to the time of signing this Contract are to be included in and form part of this Contract.

“The following are included in the contract price:—

1. Salvage pump and plant;
2. Towing winch;
3. Steam launch, and
4. Diving apparatus,

all in accordance with their specifications, copies of which are annexed hereto and identified by the signature of the contractors and are to be deemed to be incorporated and form part of this contract.”

That is the clause which provides that the contract is the same as our contract between the Canadian Government and ourselves.

By Mr. Carvell:

Q. With these four additions?—A. “Modified only to the extent required by the additions already agreed to and covered for in the price accepted by the Russian authorities and any modifications that may have been mutually agreed to between Canadian Vickers Limited and the Canadian Government up to the time of signing this contract.”

Q. Had any modifications been agreed to, up to that date, between the Canadian Government and you?—A. I will not say they had been agreed to and there had been some correspondence in connection with proposed modifications, but our reply had gone back to our London office stating that it was too late to make the changes.

Q. There was a clause there suggesting that some changes had been made as between yourselves and the Canadian Government?—A. The reason we took that position was this: that supposing after work had been done under the instructions of the Canadian Government, the Russian inspectors on the work came and said, “We want that placed here and not there.” We might make a change at the instruction of the Canadian inspector and the Russian inspector comes along and produces the plans for the ship and says: “This should not be here; it is shown there on the plan.”

Q. I understand you, in reading that clause, to say that there were some modifications that had been made by the Canadian Government?—A. Modified only to the extent already agreed to and covered by the prices accepted by the Russian authorities and any modifications mutually agreed to between the Canadian Vickers Limited and the Canadian Government up to the time of signing this contract:

Q. Were there any modifications made up to that time?—A. There were bound to be modifications. The plans of the ship as she was being built for the Canadian Government were essentially the same as for the Russian Government.

Q. They took it over on the plans and specifications of the Canadian contract, plus these four items?—A. That is about it.

Q. And with these four items included the ship was to be sold to the Russian Government for £330,000?—A. That is correct. The contract goes on:—

“The vessel shall be constructed in hull, engines, boilers, auxiliaries and equipments, in accordance with the specifications and drawings, except as modified by this contract, and be built under Lloyds’ special survey, and the said specifications and drawings shall be integral portion of the present contract.”

Q. Is there any provision there about inspection?—A. Yes, there is a provision to keep insured, then there is a clause for payment, (reads):—

“The purchasers agree to pay to the contractors the sum of £330,000 for the said vessel, delivered as hereinafter mentioned, completed in accordance with the said specifications and drawings. Payments to be made in accordance with the scheme of instalments, as agreed upon by Canadian Vickers, Limited, and the Canadian Department of Marine and Fisheries, in Clause 21, J, of the hull specification. The first payment to be made on the signing of the contract, etc.”

Was it “inspection” you asked about?

Q. Yes. That will be a very important matter, the work of inspection.—A. As a matter of fact that was one of the first intimations we had, as Mr. Johnston said, about February, I think, we had been informed that the ship would be given over to the Russian Government; we received this about January, and the Department was more or less in a fog as to what it was expected to do. We, too, were in a fog; we had the contract, no Russian inspector had arrived, and the Department very kindly kept on inspecting the boat until by and by the Russian inspectors arrived and took charge, and she was inspected by the Russian officers from about September. We had four Russians on the Commission, and they came here at different times.

Q. When had the vessel to be delivered according to your contract?—A. On the 15th October.

Q. That was the date of delivery, under which contract?—A. This one. (Indicating contract with Russian Government.)

Q. What was the date of delivery under the original contract?—A. 18 months, I think, from the date of signing, and the date of signing was about the spring of 1914, that is a matter which can be turned up.

Q. Then you were behind in delivery at this time?—A. No, not exactly. We built the ship in practically the same time as we promised we should.

Q. Unless you want to go into it, I do not ask you to do so.—A. But I want to make this clear in order to set at rest a lot of wild chat. At the end of 1914 the construction of the ship was stopped, the frame of the ship was pulled down, and taken out of the shop in order to allow us to build submarines. There was not a hand’s turn done on her until the middle of 1915 and then we went through 1915 at a steady, average pace; we were giving preference to the submarines, the motor-boats, and a cruiser, and at the end of 1915 started in on the ship. If you care to look at the curve showing the cost of iron and steel along on the ship, you will notice that it goes up like this (displaying chart), that curve going right up all the time. It is rather interesting, because it is an absolute picture of the cost of the construction of the boat. Here (pointing to chart) it commences in 1914, this curve represents the cost only of the iron and steel work, no wood, no engines or anything of that kind; it goes up and shows the increased cost of that part of the ship; there (indicating on chart) is our estimate, and here (indicating) is shown the actual cost according to the figures which are audited.

By Mr. Morphy:

Q. When you say “there is our estimate,” what do you mean by that?—A. That is the amount allowed for the work in our estimate up till the completion of the ship.

Q. And above the yellow line it is all extra cost?—A. All extra cost.

Q. What proportion of the whole expenditure on the steel work was the increase?
—A. About 62 per cent more than the original estimate.

By Mr. Carvell:

Q. Now we will try to get back to where we started, we were talking about the terms of this contract. This contract in substance, provides that Vickers, Limited, were to sell this vessel to the Russian Government, built according to the plans and specifications of the Canadian Government, plus the four items you have referred to, for £330,000?—A. That is correct—plus all alterations agreed to by the Canadian Government before that is all included; simply to sell.

Q. For those changes that the Canadian Government had agreed to did your contract with the Canadian Government entitle you to any more money?—A. I do not think it did, I am speaking from memory; I do not think we had any more money granted on that account. We were building on a straight contract.

Q. Now then, I want to come down to these four items; what was the cost of the salvage pump?—A. I can give you the total cost of the salvage pump and other additions.

Q. The total cost will do?—A. I think I know what you want, the total cost of the salvage pump, the towing winch—

Q. The steam launch and the diving apparatus?—A. Yes.

Q. You must have the documents there to show that?—A. We have not the invoices here, but I can get them if you want them.

Q. You can furnish that, can you not?—A. Yes,—all these things were bought in London.

By the Chairman:

Q. Do you know the total cost of all these things over and above what you would have supplied to the Canadian Government under the original contract?—A. Yes, and that involves another question—the cost of a lot of this work such as if a man comes along and orders you say, as he did, to put on four four-inch guns, and you have to put in magazines, munition hoists, and all that sort of thing, no accounting system in the world will take account of the cost of those alterations, because part of that work is so involved in the building of the vessel that it is impossible to separate it. We had the decks torn up three times on account of alterations—

By Mr. Carvell:

Q. This may be interesting as between you and the Russian Government but we are asking you what was the cost of these four items?—A. As to an absolute statement of the cost of those four items, I can get it for you; it is not a matter of \$40,000 or \$50,000. That towing winch will cost, certainly \$2,000 or \$3,000, or it may actually be \$4,000, and—what is the other one?

Q. Salvage pump?—A. Supposing you say \$10,000 or \$15,000, that is for these pumps, etc.

By the Chairman:

Q. What about the installing?—A. There were things that went in which were charged by us to the cost of building the ship. What I want to explain is this: that ship came in for a large number of alterations every day, but we found it absolutely impossible to keep a record of each individual alteration that was made, as to the cost. The consequence is that most of these alterations have been charged in simply to the cost of construction. I have the audited statement of cost here. In certain of them, we have the itemized cost, for instance, one item, additional stiffening, that was a job right below decks and we could keep a tally without trouble. I have the detailed cost.

By Mr. Boys:

Q. How much?—A. Then there were about two or three items like that that we could keep track of. I have the audited statement here of the total cost of the ship. What we have to realize is that the Canadian Vickers are not going to make a cent of profit on that sale.

By Mr. Carvell:

Q. I always have a habit of trying to stick to what I am after until I am through. Can you furnish us with the cost of those four items?—A. I can get them for you, but I have not got them in my mind.

Q. You estimated them now as around \$10,000 or \$15,000?—A. I will produce the invoices.

Q. I understood you to say that it might be \$10,000 or \$15,000?—A. It might be, but I have not examined the pump.

Mr. CARVELL: All right.

By the Chairman:

Q. You spoke of putting in additional magazines and additional stiffening. Are these all additional extras?—A. Yes.

Q. Then why did you not tell us?—A. I can tell you. The best way would be to give you an itemized statement of what has increased the cost.

By Mr. Carvell:

Q. Before you go into that, I want to lay a foundation for this evidence. We have in evidence this morning from Mr. Johnston a cablegram from the British Government stating that there was an item of \$80,000 which he construed to be extras on the Russian contract?—A. That is correct.

Q. Are the items, or any portion of those that you now propose giving, included in that \$80,000 of extras?—A. No. The guns are in the \$80,000. This will put it right to you. (Indicating statement.)

Q. Now, there is nothing you are giving us now included in the extras of the \$80,000?—A. No.

By Mr. Boys:

Q. What you are going to read now are extras over and above those of the Canadian Government?—A. I am going to read now items for which no extras have been paid.

Q. And not included in the Canadian contract?—A. Things like this: Increased cost of labour and materials due to rushing that ship for construction during the war. We never claimed an extra for that. Presumably when that ship was sold, it was a matter between whoever closed the contract in London—I do not know who it was—they said: What is a fair price for that ship as she stands? They bought that ship as she stood at a certain price, and said; that is fair. That price had to cover such things as this: increased cost of labour during the war. You gentlemen all know what that is.

By Mr. Devlin:

Q. All that was subject to the terms of the Canadian contract?—A: Mind you, I do not know anything about the contract except that I have got it and read it. As to how it was made I am in the same position as Mr. Johnston.

By Mr. Carvell:

Q. Supposing the contract had never been assigned at all? Would not all of those conditions have existed?—A. Yes, for the Canadian Government they would.

By the Chairman:

Q. You know exactly what we want to find out. What we want to know is what you got extra?—A. I will tell you that right now. We got about £15,000, somewhere about that, about \$80,000.

Q. What had you to do for the Russian Government that you would not have had to do for the Canadian Government, and what did you charge for that? Tell us exactly what you did for the Russian Government that you would not have had to do under your contract with the Canadian Government, and what you charged for doing it?

Mr. CARVELL: That is a fair way of putting it.

By the Chairman:

Q. Apart from the \$80,000 altogether; that is not in your contract—that is an extra?

By Mr. Stevens:

Q. Would you mind answering this question: You stated a little while ago that you were delayed in construction, making room for submarines and patrol boats and vessels of war. Did you receive any request to give precedence to naval vessels?—A. Well the department here more or less acquiesced in the conditions existing, that that ship was being neglected in order to give precedence to the war. Under that we could have presumably gone on the same as we have with one ship for the same department that is practically lying stagnant due to the war, and this ship would probably have drifted along until the war was finished.

Q. Owing to that the construction of the ice breaker was put over into 1916, whereas it should have been built in 1915? The cost, as a result of this delay, was very much greater—62 per cent according to your chart?

Mr. CARVELL: He did not say that.

Mr. STEVENS: I understood so.

Mr. CARVELL: The increase was on the iron and steel.

Mr. STEVENS: And material.

By Mr. Stevens:

Q. How about the cost of wages?—A. The cost of that boat would come up to about \$1,700,000.

Q. What did you get for it?—A. \$1,650,000.

By Mr. Devlin:

Q. Do you mean to say that if the Canadian Government wanted to replace that boat today—as they will have to do later—they will have to pay \$1,700,000?—A. I would not take it for that; I would ask \$2,000,000.

Mr. CARVELL: Had the witness not better get back to the question the chairman asked him? You know there is another side to this, Mr. Stevens. While these people are claiming they were put off a year, they got mighty well paid for it.

Mr. STEVENS: I am not so sure of that.

Mr. BOYS: Perhaps they did. All we are concerned in is whether there was a rake-off.

The WITNESS: I have no doubt this thing was talked over on the other side very frankly. The question was no doubt asked: What was this ship worth? and, knowing the cost of things in England, they said: She is worth such a price.

By Mr. Carvell:

Q. Do you know that?—A. No.

Q. That is only your supposition?—A. Yes. On the other hand, too,—

Q. Then let us have the answer to the question of the Chairman.—A. Now, Mr. Chairman, there is the list of extras authorized in London, List B (indicating documents). These have been paid for (indicating) a sum we have since been informed of \$60,000 or \$75,000.

By the Chairman:

Q. Which of these extras were you not bound to put in under the Canadian contract?—A. Under the Canadian contract, the whole of them.

Q. That is from No. 1 to No. 13?—A. And these additional (indicating).

Q. The whole 17 items of extras are for the Russian Government, and are not called for by the Canadian contract?—A. Yes.

By Hon. Mr. Reid:

Q. Can you give us an idea of what they are worth?—A. Worth about \$80,000 extra.

By Mr. Devlin:

Q. The ship has cost the Russian Government £330,000 plus £16,000?—A. Absolutely correct.

By the Chairman:

Q. Do these articles you have mentioned now in this list, Nos. 1 to 17, make the £16,000 extra?—A. Yes.

Q. We do not want that at all. Eliminate that altogether. Give us what you have done outside of that.—A. That, mind you, is extra to the contract with the Russians.

Q. Tell us what is the extra on the Canadian contract apart from the Russian contract?—A. There were some small incidentals, such as the docking of the ship not charged for, and some other odds and ends. The extra was the war cost.

By Mr. Devlin:

Q. What would the docking of the ship cost?—A. Three thousand dollars, something like that, and painting.

By Mr. Carvell:

Q. Then, practically it means, Mr. Miller, that you are contending that under the increased cost of production you do not make very much money out of it?—A. We do not. What I maintain is this: the £330,000 was for the ship including the war cost, and the extras to that contract as on that list.

Q. If your estimate be correct, if the Canadian Government had held you to your contract, you would have lost money?—A. On the original contract?

Q. Yes.—A. Certainly we would, provided we had completed that contract during the war.

Q. That is what you agreed to do.—A. We agreed to finish it, but in war time they say: let it stand over.

By Mr. Morphy:

Q. You spoke awhile ago of being compelled to pay on the structural work, steel and iron 62½ per cent more because of the delays than you would have paid otherwise?—A. No, no, increased war cost, rise of labour.

Q. Exactly. Than you would have had to pay if the vessel had been constructed at an earlier period?—A. Undoubtedly.

Q. How much does that come to on the iron and steel? Let us get some figures.

By the Chairman:

Q. You would have had that extra cost if you had carried out your contract with the Canadian Government.

Mr. CARVELL: Mr. Miller will not say it was the cause of the delay.

By Mr. Carvell:

Q. Will you say now that the 60 per cent extra cost was due to the delay in the completion of the ship by reason of the submarine construction?—A. No, no, simply the increase of wages due to the work in 1916.

Mr. CARVELL: I am willing now that Mr. Morphy should get his answer so long as the point is understood.

By Mr. Morphy:

Q. What does the 62½ per cent amount to?

By the Chairman:

Q. Perhaps another way of putting the question is this: Have you made any more money out of the present contract with the Russian Government than you would have made out of the Canadian contract if you had carried it out without any changes?—A. No, we would have lost money on both.

By Mr. Devlin:

Q. You would have made more?

By Mr. Carvell:

Q. On which would you have lost the most?—A. What I know is this: that the Russian price will meet the cost and no more. At the Canadian price we would have lost if we had completed it during the war.

Q. Then, you made money by changing it over to the Russian Government?—A. I cannot say we made money.

Q. Then you saved loss?

By Hon. Mr. Reid:

Q. You said if you had to complete it during the war?—A. If we completed it during the war we would have lost money on it. But that does not mean to say that we are making a handsome profit on the Russian contract.

By Mr. Boys:

Q. But if that contract had been transferred, you would have had to complete it at the contract price?—A. It is very difficult to express an opinion on that when you do not know what negotiations took place in London.

Mr. CARVELL: You know what the contract with the Canadian Government was.

By Mr. Boys:

Q. What I want to find out is this, if I can: You were bound under the Canadian contract to build that vessel in eighteen months, and, I understand, you could have completed it within eighteen months, for very much less than you could when you did build it?—A. Undoubtedly.

Q. Can you say now that, having in view the increased cost of labour, you could have completed that boat within eighteen months?—A. That is under the old contract.

Q. Yes, and how much would it have cost you to complete it under that contract?—A. I do not think you would do it for much less than a million and a half.

Q. And that increase in cost you attribute to the war?—A. Absolutely, to the increased cost of labour, etc.

Q. You were bound by that contract to deliver the vessel at that price, and in some manner it has been ignored?—A. Yes.

Q. On what ground are you entitled to benefit by the increased price; you were bound by your contract to build that boat, all but a few thousand dollars for extras, for \$900,000?—A. I am not in a position to explain that because I do not know.

Q. Your answer is, it depends upon what took place in London?—A. Absolutely.

By Mr. Carvell:

Q. Prior to the month of February, 1916, did you inform any of the members of your London firm that you were going to lose money on this Canadian contract?—A. Not formally.

By Mr. Ross:

Q. Was it at the request of the Canadian Government you delayed the construction of this icebreaker?—A. It was done on mutual consent in order to enable us to go on with the war work.

By Hon. Mr. Reid:

Q. Was it not because they wanted the use of your yard for the submarines that the delay was caused?—A. Yes, the submarine work was to be done in the yard, and we required the space so that we had to move the vessel out.

Q. You could not go on with this vessel and with the submarines at the same time, and you had to lay the vessel aside for that reason?—A. Yes.

Q. At that time had you the material on hand to finish the vessel?—A. No, sir, we have not. As a matter of fact, there is a considerable quantity of steel which was ordered for this ship in the works now; it did not come in time.

Q. You say it was not on hand, but had been ordered or contracted for?—A. Oh, yes.

Q. You say it had been contracted for?—A. Yes, but it had not been delivered.

By Mr. Carvell:

Q. Did you construct the submarines?—A. The submarines?

Q. Yes; it is all over and past now, and I see no reason why we should not discuss it. The submarines were assembled in your yard?—A. There were submarines built for an organization by our men, and an organization— Really I do not think it is wise that I should give full publicity to this matter.

Q. I would like to know exactly what you did with this ship, as a result of the submarines being constructed in that yard?—A. We pulled down the frames that were erected, and slid the lower part of the ship in one piece across.

Q. How far?—A. A matter of, it may be, 15 or 20 feet, the whole length of the ship, the double bottom was moved across and we kept her there and by doing that were able to make room for the submarines.

Q. How much of the shipyard space was occupied by the submarines, until they were delivered, and how much space was left for your ship construction if you wanted to use it?—A. None of the ship-building space was kept, all of it was occupied.

Q. How much land was left?—A. A considerable amount of land, quite a quantity was left, but it was unsuitable for ship-building; it is the land upon which we are now erecting our additional ship-building berth.

Q. I do not want to go into any details of the construction of the submarines, but did you get paid pretty well for the land or for your property that was occupied for that purpose?—A. I do not know.

Q. Did you not ask an amount which would pay you pretty well?—A. I have not asked anything.

Q. Do you not know how much your company asked?—A. I do not.

Q. Would you be surprised to learn they had asked half a million dollars?—A. I did not know it; all these matters would be handled, I presume, from London.

Q. I understood you to say that the cost of this ship was increased by reason of the delay caused by the building of the submarines. That is why I am asking that question.—A. I want to correct that, I did not say that. I said the increased cost of this ship was entirely due to the increased cost of labour in 1916 due to the war.

Q. And had it not been for the submarines, you could have finished the ship in 1915?—A. That would still have been during the war, and I think the increase in the cost of labour applies to both.

Q. Then according to that there would be no point in Mr. Morphy's question at all, because the substance and intention of that question was to show there had been an increase in the cost of construction of this ship on account of the delay caused by the building of submarines.—A. Oh, no, it was due to the increase in the cost of labour and material owing to the war.

By Mr. Morphy:

Q. But did not the increase in cost, because of the war, continue during that period of eight months' delay?—A. Oh, yes, the prices went steadily up.

Q. And if that delay continued from month to month, you would be running into a greater increase in the cost owing to that eight months' delay?—A. Certainly you would, the further you go, the higher the price.

Q. Then the delay did increase the cost?—A. Looking at it that way, certainly.

By the Chairman:

Q. Can you get us a statement, in answer to my question, in detail, you can take your time about it, of the extra work or material that you supplied to the Russian Government over and above what you were bound to supply to the Canadian Government, not taking into consideration the \$50,000 extras?—A. As I say, I cannot, simply on account of the increased cost of the work.

By Mr. Carvell:

Q. But surely from your knowledge of the work you ought to be able to pick out that information.—A. But there are items which are all included as part of the cost of the ship, for which extra payment has to be made, such as fittings, and it is a question whether the books show it separately.

By Mr. Morphy:

Q. Are the guns included in the cost of the ship?—A. The guns are not.

Q. In the construction of a warship, I understand, I do not know whether my information is right or not, but the emplacements for these guns have to be built in the basic structure of the ship. In this case you have not done that.—A. Yes, we have put them all there, up to what is known as the "Packing-ring" on the deck upon which the gun is placed.

Q. You could not have been building for guns when you started on the ship?—
A. No.

Q. When you determine to put guns on a ship after the construction has been proceeded with the necessary alterations to provide for the proper installation of the guns, requires a great deal of work and involves a very large increase in the cost, does it not?—A. That is quite correct, and we had to do that in this case.

Q. And having had to do that, have you any separate estimate of what the cost was, or has it gone into the general estimate of the increased cost of construction?—A. The alterations for the guns have been kept separate.

Q. Have you the figures there?—A. I think we have.

By the Chairman:

Q. But that is included in the \$80,000?—A. Included in the \$80,000—the cost as shown in our books is \$25,000; for the increased cost on account of the guns.

Q. Not for the guns themselves?—A. No, that is for altering the hull.

By Mr. Devlin:

Q. And that is included in the £16,000?—A. Yes.

By Mr. Carvell:

Q. I do not want to dig into your private affairs at all, but you stated you have an audited statement here?—A. Yes.

Q. Can you leave that with the Secretary of the Committee?—A. I do not think you would understand it.

Q. Perhaps we will get somebody else who would?—A. I mean you might not understand the items there if you look at it. However, I am quite pleased to leave it with you (document filed).

Q. I would like also if you will bring a copy of the statement showing what materials you have ordered prior to the 4th August, 1914. I understand the contract with the Canadian Government was made in 1914?—A. Prior to that, it is practically all steel.

Q. We would, I think, assume that a company when it starts in to build a vessel must have made its contract for steel beforehand.—A. At that time, we made a contract for the steel after we got the vessel contract.

Q. You got the contract in March, 1914?—A. Yes.

Q. I would like to know what contracts you made up to August, 1914, for material for this vessel.—A. Yes, and the other information you want, Mr. Chairman, is?

The CHAIRMAN: I want to know what more you had to do under the present contract than you had to do under the Canadian contract, outside the \$80,000 extras, and what was the cost of supplying that.

Witness retired.

Committee adjourned.

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OFFICIAL REPORT OF EVIDENCE

TAKEN BY THE

PUBLIC ACCOUNTS COMMITTEE

IN CONNECTION WITH

ICE BREAKER

No. 3—Wednesday, May 9, 1917

NAMES OF WITNESSES.

P. L. MILLER, GENERAL MANAGER, CANADIAN VICKERS - - MONTREAL

A. JOHNSTON, DEPUTY MINISTER OF MARINE - - - - - OTTAWA



OTTAWA

PRINTED BY J. DE L. TACHÉ,
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1917

MINUTES OF EVIDENCE.

HOUSE OF COMMONS, OTTAWA,

COMMITTEE ROOM 301,

May 9, 1917.

The Select Standing Committee on Public Accounts met at 11 o'clock, the Chairman, Mr. Middlebro, presiding.

The Committee proceeded to the further consideration of certain payments made to the Canadian Vickers, Limited, for the construction of an ice breaking steamer (the "*J. D. Hazen*") for \$998,583.

The CHAIRMAN: I understand that Mr. Miller wants to make some explanation in connection with the evidence he gave on Friday.

Mr. P. L. MILLER, recalled.

By Mr. Carvell:

Q. When we adjourned on Friday last, I think I was asking you what contracts you had made at the time you made the contract for the ice breaker?—A. Before we go on to the real business, might I ask permission to correct certain portions of the transcript of my evidence, given on Friday. On page 50, I was reading a quotation and after the words "and form part of this contract" on line 21, it should read "That clause provides" instead of "That is the first clause which provides" and it should continue "that the contract is the same as our contract between the Canadian Government and ourselves modified only—" and you, Mr. Carvell, completed the sentence for me with the question "With these four additions," and I went on to read it right through "modified only to the extent required by the addition already agreed to and covered for in the price accepted by the Russian authorities, and any modification that may have been mutually agreed to between Canadian Vickers Limited and the Canadian Government up to the time of signing this contract. That is not the whole of the quotation; I went on "are to be included in and form part of this contract." Which should be added to the answer as it appears on the record.

Farther down on the same page the answer to the question "Had any modifications been agreed to up to that date between the Canadian Government and you?" Should be "I will not say they have been agreed to in correspondence, but there were some minor modifications in details which we would not be paid extra for as they did not amount to much." There were some questions about the London office at the time, but there was no reference to the London office in connection with that answer.

The next correction I would like to make, on the same page, and this is the worst part of the whole thing, is: My answer as it appears upon the record was:—

"The reason we took that position is that supposing work had been done under the instructions of the Canadian Government, the Russian inspectors of the work came along and said: 'We want that placed here, and not there.' We might make a change at the suggestion of the Canadian Inspector, and the Russian Inspector comes along with the plans of the ship and says: 'This should not be here, it is shown there on the plan.'"

That answer should read:—

“The reason for that clause is evidently to prevent a large number of alterations being asked for if supposing after work had been done, under the instructions of the Canadian Government, the Russian inspectors came along and said, with reference to fittings, etc., already completed, ‘We want that placed here and not there.’ For instance, we might have arranged, at the instruction of the Canadian inspector bollards, cabin-fittings, side-lights, etc., in different positions to those shown on the plans, and the Russian inspector comes along, and produces the plans for the ship and says: ‘This should not be here, it is shown there on the plan.’”

In the next answer at the commencement the words “witness re-reading contract” should be inserted. I refreshed my memory by re-reading that clause again. Two or three lines farther down in reply to the question:

“Were there any modifications made up to that time?”

the answer reads:—

“There were bound to be modifications. The plans of the ship as she was being built for the Canadian Government were essentially the same as for the Russian Government.”

The answer should read:—

“There were bound to be small modifications, but the plans of the ship as she was being built for the Canadian Government were essentially the same as for the contract with the Russian Government.”

On page 51, line 19, the word “difficulties” should be substituted for the word “intimations,” and in the second and third lines below it, the words “we received this about January” should be struck out. The answer will then read:—

“As a matter of fact that was one of the first difficulties we had. As Mr. Johnston said, about February, I think, we had been informed that the ship would be given over to the Russian Government; and the Department was more or less in a fog . . .”

By Mr. Carvell:

Q. My recollection is that it was in February?—A. Yes, February, something like it.

Q. And you wish to change that to February instead of January?—A. I was going to cut it right out, because it is not pertinent to anything there.

Q. I would like to have your evidence as to when you first received any information that the ship was to be given to the Russian Government?—A. Certainly, I will be pleased to give that.

On page 51, line 42, the answer reads: “If you care to look at the curve showing the cost of iron and steel alone on the ship.” The words “labour” and “work” should be inserted there, and the sentence will then read:—

“If you care to look at the curve showing the labour, cost of iron and steel work alone on the ship.”

On page 53, line 12, the answer: “It might be, but I have not examined the pump,” should be:—

“It might be, but I have not examined the detailed cost of the pump, etc.”

On the same page, in the thirteenth line from the bottom, the words: "but I presume" and "and" should be inserted. The sentence will then read:—

"Presumably when that ship was sold, it was a matter between whoever closed the contract in London—I do not know who it was but I presume they said: 'What is a fair price for that ship as she stands?' and they bought that ship as she stood at a certain price, and said, 'That is fair' . . ."

On p. 55, line 28, the report reads:—

"The extra was the war cost."

It should be:—

"and the extra of the war cost."

Farther down, after the price is mentioned, the report reads:—

"and the extras to that contract as on that list."

It should read:—

"and the extras to that contract are on that list. (Indicating list.)"

The list was on the table. A few lines below that the report reads:—

"but in war time they say: Let it stand over."

It should be:—

"but in war time they simply let it stand over."

On p. 57, line 11 from the bottom, the report reads:—

"There were submarines built for an organization by our men, and an organization."

It should read:—

"There were submarines built by our men under a special organization."

On p. 58, line 18, the word "years" should be added after the word "both." On the same page 14, line from the bottom, the following answer is given:—

"As I say, I cannot, simply on account of the increased cost of the work."

The following words should be added:—

"Due to alterations being so mixed up with original construction cost."

On p. 58, line 9, from the bottom, the words "such as fittings" should be struck out. The answer would read:—

"But there are items which are all included as part of the cost of the ship, for which extra payment has to be made, and it is a question whether the books show it separately."

That is everything of importance. I thank you for the opportunity of making these corrections.

By Mr. Carvell:

Q. Have you brought the contracts, or copies of them, that you made for materials at the time the contract was signed by the Government?—A. The only contract placed before August, 1914, was the order for the steel.

Q. How much?—A. Amounting to about \$80,000.

Q. How much in tons or pounds?—A. 1,900 tons.

Q. How much steel did it take to construct the ship?—A. Between 2,100 and 2,200 tons.

Q. Then, the very large proportion of the steel was ordered?—A. Yes, sir.

By Hon. Mr. Reid:

Q. Did I understand you to say that 2,100 tons were used in construction?—A. Yes, from 2,100 to 2,200 tons.

By Mr. Carvell:

Q. One thousand nine hundred tons of this steel was under contract before the war broke out in August. Did you have some other contracts? You surely must have had contracts?—A. Ordered for this ship?

Q. For this ship?—A. Not before August, Mr. Carvell, nothing at all.

Q. What about your machinery?—A. The machinery contract was placed with Vickers, at Barrow; designs, plans, everything was prepared in Barrow and supplied to us as a complete unit to be put into the ship.

Q. Did you have some arrangements with Vickers, Limited, in Barrow, about the machinery for this ship before you tendered?—A. No, sir—beyond this, that we had arranged that the machinery would have to be made in England. But so far as I recollect we have no formal contract in Barrow for the machinery.

Q. I quite understand that, because it is practically one and the same concern?—A. Exactly.

Q. So you would not require a formal contract. Do you know what Vickers, Limited, in Barrow, have charged you for this machinery?—A. The account up to date, sir, is about \$360,000.

Q. Well, we might as well get it correctly?—A. Somewhere approximately that.

Q. I see from your record here, as pointed out to me by your book-keeper, that the charge was \$338,123.74?—A. The price, if I remember rightly, is £69,000, and that provided for the boilers, engines, and a certain amount of auxiliary machinery. The figures inserted in the cost at Montreal are the contract figures.

Q. As to what date are these figures made up?—A. The figures that you are looking up, Mr. Carvell?

Q. Yes?—A. These are the cost account records which were made up—

Q. No, I am speaking now about the machinery. This is a very large amount of money, \$338,000 seems to be a large amount of money on a million dollar ship?—A. The machinery for that ship has undoubtedly cost \$150,000 more than that.

Q. Well, I am asking you of what date is this amount of \$338,000 made up as between the two companies?—A. It is settled when the contract is signed between the two companies, and as the machinery comes out we credit them with the instalment they have earned on that machinery.

Q. When was the contract signed?—A. For the machinery?

Q. Yes?—A. From memory, I cannot say, but it would be sometime in the fall of 1914.

Q. It would be very shortly after the outbreak of the war?—A. Yes, it would (consults naval architect)—no, just before the outbreak of the war.

Q. Well, that would not be affected by war prices?—A. The machinery was made largely in the end of 1915 and the beginning of 1916.

Q. But, about the contract: your contract would not be affected by the fact of the war having broken out?—A. I am afraid our contract is affected by that.

Q. That is what I am afraid of, too?—A. For this reason, Mr. Carvell: our contract with the Canadian Government specified that we were bound to complete that

ship in something like eighteen months subject to the clause which said: "Matters not under the control of the contractors excepted." The consequence is we are entitled under that clause to claim extras for any costs provided we were compelled to finish that ship during the war. Otherwise we could have let the ship stand over.

Q. Perhaps our minds are not running in the same channel. I think we should try to get together?—A. I think we can.

Q. I started out to ask you what contracts you had entered into for the construction of this ship before the outbreak of the war. You admit a very large proportion of the steel had been purchased?—A. Yes.

Q. Now you say you had signed a contract with the parent firm for the machinery before the war?—A. Yes.

Q. These two items were not affected by the war so far as we are concerned?—A. The cost of the machinery undoubtedly went up, but we have placed nothing in our cost accounts here for the very reason you see, that we had a firm contract, the contract price for the machinery at Barrow. But as Canadian Vickers and Vickers in Barrow are one and the same thing, you can reasonably expect them to come along to me very shortly and say: "We want another \$150,000 for the machinery."

Q. That is a matter between you and the parent company?—A. In accordance with the most recent legislation in England, it has been enacted in England within the last six months that in pre-war contracts the war costs are to be paid by the purchaser and the matters are to be adjudicated upon by the Government. It is held over there that the contractor should not be compelled to lose money because the war has been the cause of that pre-war contract being larger in cost of execution than when the contractor took the contract.

Q. That may be true. I am giving you all the latitude that anybody could ask?—A. You are giving me fair treatment.

Q. Don't you think you are putting this in a little too frequently? Now, try to get at the actual business. You can explain all you wish to?—A. I will wait. You go ahead.

Q. Had you made contracts for anything else other than the machinery and the steel?—A. No, sir, we had not.

Mr. BOYS: May I be permitted to ask a question?

Mr. CARVELL: Yes.

By Mr. Boys:

Q. Can you say whether or not, Mr. Miller, a contract formally entered into, as you put it, before the war, must be fulfilled after the commencement of the war at the price called for by the contract?

Mr. CARVELL: Just a moment. Don't answer that.

By Mr. Boys:

Q. In accordance with the legislation at present existing in Great Britain?—A. No, sir.

Mr. CARVELL: Don't answer that. You will have every opportunity in the world for giving explanations. I think I should like to raise the question, Mr. Chairman, as to the conduct of this examination. If one member is allowed to start in to take away entirely the conduct of the examination from the member who is trying to examine the witness, the whole thing, it seems to me, becomes a farce.

Mr. BOYS: If Mr. Carvell would himself follow out that very excellent notion he now advocates, I would entirely agree with him; but Mr. Carvell is too inclined to interject questions himself. Perhaps his idea is all right. If we all followed it I think it would be a good thing. But that practice has never prevailed since I have been a member of this committee.

Mr. CARVELL: I am not professing to be perfect at all.

Mr. BOYS: The question was not put to interrupt you.

Mr. CARVELL: Yes. The witness had answered the question several times.

Hon. Mr. REID: In this case, did not the hon. member for Simcoe (Boys) ask permission of the hon. member for Carleton (Carvell) to ask a question, and permission was granted?

Mr. CARVELL: I did not imagine——

Mr. BOYS: You do not suggest that it is not a reasonable question?

Mr. CARVELL: The witness gave the answer once.

Mr. BOYS: Will you tell me what answer he gave?

Mr. CARVELL: His answer was that in England, six months ago, legislation was passed by which pre-war contracts were not compelled to be carried out except on an adjustment, and the Government had the right to make the adjustment.

The WITNESS: Within the last six months.

Mr. CARVELL: I would like to be allowed to go on and finish up my examination of this witness; what I have to say will only take a few minutes, and then Mr. Boys can take him up and retain him until the finish of the session if he chooses.

The CHAIRMAN: I think each member of the committee should be allowed to get through with his examination of the witness before another member commences to examine him.

Mr. BLAIN: That, Mr. Chairman, must not be taken as a ruling, this whole matter was fought out some years ago and it was clearly determined then that the rules of a court do not govern this committee in that respect.

Mr. CARVELL: I admit that.

By Mr. Carvell:

Q. Now, I think you have already stated that there were no other contracts, as far as you know?—A. I do know, Mr. Carvell, I do know there were no other contracts.

Q. You, or one of your colleagues, have furnished the committee with those statements of cost which, I presume, come from your office?—A. Yes.

Q. And in those statements you state that the material amounts to \$677,257—I am leaving out the cents?—A. How much, Mr. Carvell?

Q. \$677,257?—A. Approximately—those figures are going up a little bit above that.

Q. That is the statement I have here?—A. Yes—there are some charges that have come over since.

Q. And you state that the labour is \$612,246?—A. That is, very near that amount.

Q. Then you have an item here of "manufacturing expenses," \$243,961—will you tell us how that is made up?—A. That is the overhead, Mr. Carvell. What constitutes the overhead charge on any contract is essentially a matter of fact; it is a question of analysis of some twenty-five or thirty accounts for such things as coal, power, light, heat, legal expenses, special defence works—we have very heavy charges now under that heading—

Q. Do contributions of any kind come into that item?—A. No, sir—we might have contributions say to magazines, advertising and so on.

By Hon. Mr. Reid:

Q. Or to the Patriotic Fund?

WITNESS: Mr. Carvell, I can answer you honestly, there is nothing of that sort there.

By Hon. Mr. Reid:

Q. I asked if there was anything for the Patriotic Fund?—A. Yes, there is \$3,000 a month to the Patriotic Fund, since the war started, but that comes out of the workmen's pockets not out of the company.

Q. Is there anything in that for interest or plant?—A. No, nor for depreciation. Now, as I said.—I was trying to recollect what items I had given you before, but the series of interruption have caused me to forget for the moment. Two or three months ago, we were naturally interested in the question of the cost of the ship, and we asked a firm of auditors in New York to come up here and, independently of any statement we had prepared to audit the account of that ship from start to finish; they did so, and they gave us, as the total cost of the ship, the figures I gave you last week \$1,666,748.

By Mr. Devlin:

Q. Was that prior to the contract or after?—A. After the ship was sold; they gave us that as the cost of the ship after going over all our accounts up to that time; there are still charges coming in.

By Mr. Carvell:

Q. Just a moment—according to this statement before me that would be the cost of the ship provided you added on 55 per cent to the cost of the ship for overhead expenses?—A. I do not know whether it is 55 per cent or not.

Q. It says so here?—A. I think those are my figures—I made the pencil figures there.

Q. It says here "Labour for overhead expenses"?—A. Do not forget you are not looking at the actual audited statement. The figures for the labour and material which the auditor accepted as correct and incorporated in his statement are based upon the labour and the material given in the firm's books.

Q. I am only saying that the words "55 per cent labour for overhead" are here and under those words \$1,666,000.—A. Yes.

Q. As I understand it, in order to arrive at that figure you have to charge 55 per cent labour for overhead?—A. I do not think so—I think the overhead in that ship was about 60 per cent.

Q. That may be, I am not saying that it is not, but that in order to arrive at the total given you were charging that 55 per cent?—A. You do not understand, Mr. Carvell.

Q. I think I do?—A. I can explain it to you. It is not a question of that particular figure, but of letting you know how we treat the overhead.

Q. You say that the reason the auditor told you that it would cost you \$1,666,749 was—A. That is correctly charged, he audited our books.

Q. And that is made up on the basis of material and labour, and 55 per cent labour for overhead expenses?—A. No, sir, I do not think so.

Q. Well, figure it out?—A. We can figure that out very quickly—no, it would be about 60 per cent or 61 per cent.

Q. Now, who is right? Is not that memorandum, 55 per cent, on the statement?—A. I put that on there yesterday myself.

Q. That is your figure?—A. Those are my figures, which I put there yesterday. You remember we were asked to leave that with the committee, and I looked at those amounts; I had not seen these figures until they got here, this statement is compiled from our accounts, and I made a mental calculation, and I said to myself: "What is that, it is about 55 per cent on overhead." It is all a question of taking the overhead expenses out of the books and showing that it amounts to a certain percentage.

Q. I have here, in ink, cost \$1,536,000, and in there you have \$243,961, as overhead?—A. Yes.

Q. What percentage is that, labour?—A. That is 40 per cent, but there are a considerable number of items on overhead account not in that figure. Those figures written down in ink of overhead charges placed against this vessel are at 40 per cent; when that is completed we will probably rub out those figures, and will say whatever the percentage actually is. As a matter of fact it will come up to about 60 or 61 per cent.

Q. At the time you made this contract what did you consider a reasonable amount of labour, on overhead expenditure would be?—A. Do you mean in the Canadian works or the Barrow works?

Q. I presume that when you enter into a contract for anything like a ship you figure so much for labour, so much for material, and so much for overhead expenses?

A. Yes.

Q. On what basis, if any, did you figure the overhead expenses under this contract?—A. We had no idea what it would be, because I, personally, had been in Canada only two months and we had no staff here that could make the estimate; the estimate was made in Barrow, I do not know anything about that at all.

Q. You do not know what that was?—A. We have had a copy of it since.

Q. Do you know on what basis they estimated their overhead expenses when they tendered on the contract?—A. They gave us slightly increased figures, as far as I remember, over what they used themselves in England.

Q. What would that be?

WITNESS: I do not want, Mr. Chairman, to give these figures out, because to give the cost of overhead expenses to the public is prejudicial to the interests of the company. I do not mind telling the chairman, or Mr. Carvell, privately, what those expenses are, but I do not want to tell publicly. That is the very thing that a company will not tell, what their overhead expenses are, because it is like opening up their books to rival concerns. I have no objection whatever to giving you all the information that I can properly give without prejudicing the interests of the company.

Q. You do not, for one moment, imagine that every shipbuilding company does not have a very fair idea of what the overhead expenses of their competitors are?—A. No, but Canada is a new shipbuilding country and, we have gained from experience a very good idea of what the overhead expenses are, but others who have not had the same experience do not know. That figure I have given you there is one that is made up from the books at the office, and the auditors have certified to the accuracy of the amount, \$1,666,749. There are several charges that have come in since, and no claim has yet been received from Barrow for the increased cost of manufacturing the machinery.

Q. They simply took your books and made up the statement from the information they found there?—A. They went right through the books, down to the very last item charged on the job in the ship, and they gave a cross-check in the pay-roll.

By Mr. Bennett:

Q. Did you say that you had made no allowance for increased cost on the manufacture of the machinery?—A. Yes, there is no allowance made for that.

Q. And that has to be added to the figures given?—A. Certainly, in order to arrive at the actual cost.

By Mr. Carvell:

Q. I want to go back to the statement you made on Friday. I think you said that after you had laid the keel, and got some structural steel up, you had to move

this ship in order to make room for the construction of the submarines?—A. That is correct.

Q. I would like to ask if those particular submarines have not gone and if it is not a completed transaction with regard to them?—A. On that particular ten it is.

Q. That is all I am asking about—please understand I do not want you to give any answer that would reveal to the public anything that may be going on in the yard now, so far as war measures are concerned?—A. That is the point; I do not want to be asked with regard to anything that is now going on.

Q. We all know, as a matter of fact, that ten submarines were assembled there, and have gone across the ocean, and that is a closed transaction?—A. Yes.

Q. I want to ask some questions about that. How long a time did it take to assemble those submarines?—A. Approximately six months from the time the building was started until they were gone.

Q. According to that, then, you do claim, I suppose, that you were delayed six months in the construction of this ice breaker by reason of the assembling or construction of these submarines?—A. We mutually agreed with the Dominion Government to postpone the construction of the ice breaker.

Q. I am not finding fault. I am only asking to ascertain the facts?—A. What I am getting at is: it was not a case of being forced; it was a case of compliance with the necessities.

Q. I do not know why it is that you seem to act as though I were trying to get you into a hole of some kind. Is it a fact that you were delayed six months in the construction of this ice breaker by reason of the erection or construction of the submarines? Now, is that a fact?—A. Speaking in common parlance, yes.

Q. That is all I want then. Now, to what extent did the price of materials, other than those provided for by the contracts, increase as a result of that six months' delay?—A. The materials were ordered, Mr. Carvell, during the second half of 1914, a very large quantity of them. When it came to the end of 1915 considerably more material had to be ordered to complete the ship for the Russians. The actual difference in the price between 1915, the first half —

Q. 1914 you mean?—A. No, 1915, the first half, and 1915 the second half: the question you ask—I do not know without going through practically all the invoices and comparing them with the market prices current at the time, and to do that is practically impossible inside of something like three weeks' work.

Q. I do not expect you to give it to the dollar. I thought you might have some general idea?—A. Any figures I could give offhand would not be worth the paper they are written on.

Q. According to this statement, your materials cost you \$677,000 in round numbers?—A. Yes.

Q. And your machinery was contracted for at \$338,000; and your steel was contracted for at \$80,000. These, added together, according to my figures would make \$418,000. Subtract \$418,000 from \$677,000, and you have \$159,000. The material in this ship outside of the steel and the machinery cost around \$159,000, or \$160,000. You had a large proportion of this material contracted for in the latter part of 1914?—A. Some, considerable.

Q. Considerable, you say. Now, I would like if you would give me some estimate—and I admit it would only be approximate—of the increased cost of that \$160,000 by reason of the six months delay?—A. I am afraid I could not, Mr. Carvell. So many materials go into the \$159,000 worth of ship's material that to give a figure without referring to your books and seeing what the prices and the market prices were, you might be anything up to 100 per cent out.

Q. If you cannot give it, I won't press it?—A. I cannot see the connection between the six months delay and the cost of these materials, because there is no connection. The Russians took the ship early in 1916.

Q. Early?—A. The first quarter. The contract was dated June as we saw at last meeting.

Q. Yes, I see?—A. The material for the Russian alterations all had to be ordered after we got the plans. It was coming in here as late as 1916.

Q. You got your pay from the Russians. You got \$80,000 for that. I am talking about the ship as you contracted to build it for the Canadian Government and as sold to the Government?—A. I am afraid, Mr. Carvell, we are again getting at cross-purposes. If you can explain to me what is the information you want I will be only too happy to give it.

Q. I would like to have approximately what the increased cost of this \$159,000 of material was by reason of being delayed six months?—A. I have to transfer that \$159,000—I do not know where you get the figures—to the beginning of 1915, adjust the prices to what they will be in 1915. Then I have again to adjust them to the six months delay and give you that figure, which is absolutely useless for any purpose whatever.

Q. If you cannot give it, that is the end of that transaction?—A. If I transfer the cost—this material was bought in September, 1914. You want to know what is the increased cost of that material from the beginning to the middle of 1915. My first step is to adjust it from the first of 1914 to the end of 1914.

Q. If you cannot give it to us, there is not much use in taking up time showing how you would have to do it?—A. I cannot, because I cannot understand the question.

Q. I cannot accept that?—A. I tell you frankly I do not understand the question.

Q. A moment ago you repeated the question perfectly?—A. You asked me what has been the increase in the cost of material costing \$159,000 due to the six months delay. Now, which material do you refer to?

Q. I refer to everything except the machinery and the steel work, because they were all contracted for before the war?—A. Because construction was deferred six months does not mean to say that the ordering of the material was deferred six months. You want to get really at when and what period this material was bought.

Q. No, I do not care two straws about that. I want the increased cost of material because you were delayed six months in the material. I want the increased cost of the ship because of the six months delay in assembling the submarines?

By the Chairman:

Q. Did you intend to charge the Canadian Government any more by reason of the fact that you set aside the building of this ship and went on to the submarines?—A. I have not intended to claim from the Canadian Government any increase of cost which involves delay to the submarines. It is increased price of materials and increased price of labour, and everything beyond the contractor's control.

Q. Apart from the delay in the building of the ship by reason of your giving way for the submarines, what right had you to charge the Canadian Government any increased cost because the price of material went up when you were bound by your contract to deliver at a certain price?—A. Under the clause which prescribes if we were compelled to deliver that ship subject to certain conditions.

Q. Subject to matters not within your control?—A. Fires, strikes, lockouts and causes beyond our control. If any one of those causes arises, I can turn around and say: "Canadian Government, I am not compelled to deliver this vessel on time." I think I know what you want, Mr. Carvell.

By Mr. Carvell:

Q. I know you do?—A. I will tell you this: taking it all over, the whole carrying out of that contract from start to finish, I would put it down that, apart from the machinery which we brought from England, the materials which went into that ship

cost in the vicinity of \$110,000 more than we would have expected to pay to put them into the Canadian Government ship in peace time.

Q. That is included, or a large part is included, in the extras which the Russian Government—A. No, sir, excluding the extras. They would be estimated by us, and would naturally be covered by the war prices for the extras. I am referring to the material which does not come into the extras at all. Apart from the extras, the cost of material in that ship, in my opinion, would be approximately \$110,000 more than it would have been if we had completed the ship for the Canadian Government during peace time.

Q. That is a fair answer from your standpoint, but it is not an answer to my question?—A. It is as near as we can get.

Q. I do not care about peace time or war time. You agreed to build a ship for the Canadian Government for a million dollars?—A. Subject to certain reservations.

Q. We will leave that out for the present time?—A. These reservations are accepted by the British Government.

Q. We are not the British Government, we are the Canadian Government?—A. I would be sorry to think that the Canadian Government would not do the same thing.

Q. We will not argue that. That is a matter of policy. I am trying to stick to the facts?—Go ahead, sir.

Q. You say as a result of constructing that vessel in war time as against peace time, that you believe the materials cost you \$110,000 more. I want to ask you once more—if you cannot or will not answer it, that is the end of it so far as I am concerned—what is the extra cost of these materials as a result of the six months' delay in assembling the submarines?—A. Very small, practically negligible.

Mr. CARVELL: That is what I want.

By the Chairman:

Q. I understand they were going to make no claim for the delay?—A. Never contemplated that for a minute.

By Mr. Carvell:

Q. The extra cost was practically nothing on account of that delay?—A. You are correct, as a matter of fact, Mr. Carvell —

Q. If you will pardon me.—A. I can strengthen your own argument of what you expect to infer.

Q. I am satisfied now. Let us take the labour. What was the increased cost of labour in constructing that vessel as a result of the six months' delay?—A. There was a slight drop in the cost of labour as between the beginning of 1915 and the second half of 1915 in our yard.

Q. Then there was no increase in the cost of labour?—A. Between the first half and the second half, no.

Q. That is a fair answer. You have already explained the manner of arriving at the overhead charges, and these are the three items. There is a small item, a floating dock charge of \$2,700?—A. Yes, docking ship.

Q. I do not care about that at all. Did the English Vickers ever write to you prior to the month of June, 1915, that they had sold this vessel to the Russian Government?—A. We got a copy of the draft contract about, it may a fortnight or three weeks, before we got the official contract.

Q. That is the first intimation that you had of it?—A. That would be about, I suppose, sometime in April. That would be two months before we got the official contract.

Q. Do you know how much your company has received from the British Government for the use of your yards for the erection of those ten submarines?—A. No, sir.

I do not know that we received anything. I have absolutely no knowledge of the negotiations on that transaction whatever, absolutely none.

Q. You are a separate company, are you not?—A. Yes, Canadian incorporation.

Q. And are you the manager of the Canadian end of it?—A. Yes.

Q. Then it was the company of which you are the manager that leased this land to the Admiralty?—A. I do not know that they did.

The CHAIRMAN: As the witness has already said he is not making any claim with respect to the six months' delay on account of building the submarines, what right have we to delve into that matter at all? If he was claiming anything in respect to that time it would be different.

Mr. CARVELL: I think there is something in that contention.

Mr. CARVELL: Of course it would not be fair for me to state publicly the information that has come to me, but I would like to show you privately the grounds upon which I asked that question. I have before me a letter in which the most extravagant statements are made with regard to the construction of these submarines, but, in view of the answer the witness has given, I think it is only right that I should not ask any further questions about it.

By Mr. Carvell:

Q. You wanted to make some explanation some time ago about an Act that you say had been passed by the British Government—I do not know whether it is true, but I am willing to take your word for it. Your statement is that had this vessel not been sold by somebody to the Russian Government, you would have had the right to come back to the Canadian Government and say to them, "It is true we entered into a contract to build you an icebreaker for practically a million dollars, to be delivered in eighteen months, but war has broken out in the meantime, and that is an item which was beyond our control, therefore some extra money should be allowed us for the construction of the ship under those circumstances?"—A. It would be a reasonable thing.

Q. Is that your construction of the contract?—A. Put in somewhat blunt language, it is, but it is not what I would call a strict interpretation of the contract.

Q. It would be the contention you would make?—A. No, sir, it would be a submission, with a request that it be considered by the Canadian Government, to be granted or not granted by them, as they deemed fit.

Q. Then you are putting it in as a matter of right. You have referred twice now to a certain clause in the contract?—A. Yes.

Q. Under which you claim you are not responsible for delays caused by strikes and other matters over which you have no control?—A. That is correct.

Q. Do you contend that the outbreak of war is a matter coming within that category?—A. Absolutely.

Q. And coming within that category you would have the right to go back to the Canadian Government and ask for compensation?—A. Absolutely—certainly.

Q. That is all right, that is your contention?—A. Yes.

Mr. CARVELL: Mr. Chairman, that is all I have to ask.

By the Chairman:

Q. You stated that you considered your material had cost you \$120,000 more than your estimate. About what would be a fair amount for the extra cost of labour?—A. I have answered the question in reply to Mr. Carvell by saying, in an approximate way, what it was, and I can give the same answer to you. Let me say, though, I have no figures at all to which I can refer.

Q. You put it this way, that your material cost you \$677,000; and you say of that \$120,000 is the extra amount due to the war. Your labour cost you \$612,000;

what would be the extra amount, if any, due to the war in the item?—A. I would put the extra cost, due to the rise of labour, and the necessity for a considerable increase of overtime, due to the shortage of men, at about \$190,000 for labour.

By Mr. Carvell:

Q. How much?—A. \$190,000 over what we would have to pay in peace time under the contract with the Canadian Government.

By the Chairman:

Q. That is, you consider the war cost of this ship for which you say you would have made a claim against the Dominion Government, if you have not made it, you could have made it, if the Russian Government had not taken over the ship?—A. And there is to be added to that the increased cost of the overhead.

Q. How much would that be?—A. I should put that down at about \$200,000, but I would have to go over the figures.

Q. That would make it \$500,000?—A. Approximately.

Q. Have you any other contract with the Canadian Government?—A. We have one now, for a dredge.

Q. Was that contract taken before the war?—A. It was taken just after the war broke out, at the end of 1914.

Q. And under that contract are you going to make any claim against the Canadian Government for the extra war cost?—A. Well, gentlemen, that is a matter I have been turning over in my mind for several months, and I have no doubt if we do not put in a claim we will certainly lose money the same as we would have done with the ice breaker.

Q. That contract was signed just after the declaration of war?—A. Just after.

By Mr. Devlin:

Q. Does the credit for that ship go to the Canadian Vickers or to the parent company?—A. It will ultimately come to us.

Q. At present?—A. When the money is paid.

Q. It will come to you?—A. Yes.

Q. The total amount contracted for with the Canadian Government?—A. The total amount will come to us, and we will have to pay our Barrow works for making the machinery, and will also have to pay a certain amount for fittings, machinery for pumps, etc., but the contract price of the ship will be paid to us at Montreal.

Q. That is, the contract price under the Canadian contract, or the contract with the Russian Government?—A. With the Russian Government, absolutely.

Q. And you have no agreement by which you refund any part of that to the parent company?—A. None, whatever.

Q. So that it all comes to Canada?—A. Yes.

Q. The increase over the amount stipulated in the Canadian contract to that stipulated in the contract between the parent company and the Russian Government comes to Canada as well?—A. That is correct, sir, and you can put that in another way; you can turn it around that if we were compelled, through some reason or other, to sell our ship to the Russians at cost price it would be forcing an absolute loss of about half a million dollars on the Canadian Vickers, and a like loss on the Dominion of Canada; and with the present position that the ship-building industry is in here, requiring the co-operation of both sides, I cannot believe for a minute that Parliament would endorse any such action as enforcing a compulsory loss on the young ship-building industry of Canada.

Q. But at the present moment, you do not figure this out as a loss, according to your own figures; allowing the \$110,000 you spoke of a moment ago, you still have a margin of \$400,000.

The CHAIRMAN: But you have overlooked the overhead charges.

Mr. BOYS: But he does not know what that is?—A. According to the statement of the auditor, it amounts to about 60 per cent.

By Mr. Devlin:

Q. By the parent company in London making a contract with the Russian Government, you have brought into your hands an amount of half a million dollars more than you would have obtained from the Canadian Government under the old contract?—A. That is correct.

By Mr. Boys:

Q. I was asking you, when I was interrupted, about the emergency powers in connection with British war contracts. I think you stated there was some legislation along that line in Great Britain. Are you familiar with the terms of that legislation?—A. I have not seen a copy of the Act.

Q. But, generally speaking, you have been advised of some such legislation?—A. The first place I saw it was in one of the Montreal papers, the *Star*, I think, which quoted the actual provisions.

Q. Let me read quotations which I have here, and you might tell me if this is the same legislation to which you refer. I am referring now to an extract from the Financial Times of the 23rd February, 1917, on "pre-war contracts", which purports to give the text of the bills to amend the Courts (Emergency powers) Acts, 1914 to 1916, and the increase of rent and mortgage interest (war restrictions) Act, 1915 and the grant relief in connection with the present war from liabilities and disqualification arising out of certain contracts. One of the principal clauses is:—

"(1) Where, upon an application by any party to a contract for the construction of any building or work entered into before the fourth day of August, 1914, the Court is satisfied that, owing to the prevention or restriction of, or the delay in, the supply or delivery of materials, or to the diversion or insufficiency of labour, occasioned by the present war, the contract cannot be enforced according to its terms without serious hardship, the Court may, after considering all the circumstances of the case, and the position of all the parties to the contract and any offer which may have been made by any party for a variation of the contract, suspend or annul the contract on such conditions (if any) as the Court may think fit. (2) This section shall be construed as (1) with the Courts (Emergency powers) Act, 1914."

A. That sounds very much like it.

Q. That, of course, only applies to Great Britain, as far as you know?—A. I believe so.

Q. And your contention is that had you been forced to deal with the Parliament of Canada some such consideration as that would have been shown to your company in connection with the construction of this vessel?—A. That is my opinion.

Q. In addition to that do you contend that the clause to which you have referred in your contract would entitle you to make any such claim?—A. I think it would entitle us to do so, sir.

Q. Now, when Mr. Carvell was questioning you as to the delay, I think your answer was that the six months' delay in connection with the submarines, had nothing to do with this contract, because you had come to a mutual understanding with the department to suspend the work on that vessel?—A. That is right.

Q. Was that suspension for any definite period?—A. Not that I am aware of, because we started immediately the submarines were finished.

Q. I do not know if there is any objection to answering the question, if there is you might say so, but what was the nature of this understanding, was it for a year, six months or was it indefinite?—A. No, I do not know what arrangement was made, first of all for the appropriation of the yard for that particular work, we do not know that.

Q. What you know, is simply this, that without any definite arrangement you were to stop work on this vessel and take the other work?—A. That is it.

Q. Now, this question has been confined to the construction of submarines, was any other work taken up apart from the submarines?—A. Only the work of maintenance and repairs on the dock, etc.

Q. It is borne in mind that something was said about patrol boats?—A. That was months afterwards.

Q. Was that work carried on continuously, at the time you should have gone on with this vessel?—A. No, the patrol boats were in an entirely different part of the works, work on the ice breaker was resumed along with these patrol boats.

Q. Have you ever met the Russian Attache in New York?—A. Yes.

Q. Who is he?—A. Captain Mishtoft.

Q. Did he visit your plant?—A. Several times, towards the end, when the ship was being accepted.

Q. Can you tell me when he first visited your plant?—A. About the end of October—I think it was the end of October, it was not far from that.

By the Chairman:

Q. I suppose you claim that the Canadian Government saved the \$500,000 by getting the Russian Government to take over the contract at a higher price?—A. Practically so.

By Mr. Carvell:

Q. What, if any, works were you constructing that were deferred on account of the assembling of the submarines, there was the ice breaker?—A. I beg your pardon.

Q. What works of any kind were you constructing which were deferred other than the ice breaker as the result of constructing the submarines?—A. Nothing else being constructed in the yard except the dredge for the Dominion Government.

Q. That was the only thing that was delayed by reason of the construction of the submarines?—A. Yes, and the dredge, of course, was very little delayed. She was in the yard, but we had not started to erect. There was a very small amount of material.

By Mr. Boys:

Q. Referring to the file, Mr. Miller, I see a letter dated November 28, 1916, from the Russian Naval Attache to the Deputy Minister of Marine referring to some difficulty. He says:—

I am in receipt of a cable from the Russian Committee in London informing me regarding some difficulty with the final financial arrangements with Canadian Vickers Company, Limited, for ice breaker *Mikula*.

Can you tell me whether it was about that date that he came?—A. Before then; several days before that.

Q. In connection with this vessel?—A. Yes.

Q. Can you say whether or not he knew of the action of the Department of Marine in Canada in connection with this vessel?—A. Do you mean withholding clearance?

The CHAIRMAN: Agreeing to the transfer.

By Mr. Boys:

Q. Is he familiar with what the Department of Marine in Canada was doing so far as the ice breaker *Hazen* was concerned?

Mr. CARVELL: That is a hard question to ask in regard to the Russian Attache.

The WITNESS: Captain Mishtoft never spoke to me of the matter in any way, and I never asked him if he knew.

By Mr. Boys:

Q. To put it shortly, during your interviews with him, nothing took place which would warrant you in saying that he was familiar with the intention of the Canadian Department of Marine to transfer this vessel with its benefits to his Government?—

A. Until about—would it be September or August?

Q. I would like to know at that time?—A. He wrote us, I remember, in connection with charts for the voyage to Archangel; so he must have had an intimation. He was also notified of the appointment of a receiving commission, of which he was a member.

Q. I am only concerned on one point. My question is: From your interviews or correspondence with him, are you able to say whether or not he knew that it was the clearly defined intention of the Canadian Department of Marine to transfer this contract to the Russian Government with the entire benefits accruing from the same?—A. No, I cannot answer that.

By Mr. Devlin:

Q. Mr. Miller, did anybody sign the contract between Vickers, Limited, and the Russian Government on behalf of the Canadian authorities?—A. Not to my knowledge.

Q. Was there any clause in that contract referring to the transfer of the former contract with the Canadian Government?—A. I will need to verify that from the contract.

Mr. CARVELL: That reminds me, I find in going over the evidence that the contract was not incorporated in the record.

Mr. BOYS: You asked Mr. Miller to read the contract; he pointed out there were some twenty-odd pages, and then you proceeded to give extracts.

Mr. CARVELL: I am not finding fault. I may have an opportunity of reading over the contract, and if I want any special clauses incorporated in the record, I would like to ask that they be inserted. Perhaps there are only three or four clauses necessary for the purpose.

By Mr. Devlin:

Q. Your assumption was that the Canadian Government had transferred their rights to the Russian Government?—A. Canadian Vickers had nothing to do with that. We can neither make assumptions nor even think of the matter, because the whole negotiations took place at the Colonial Office, Vickers, Russian Government.

Mr. CARVELL: You were as much in the dark as the Canadian Marine Department.

The WITNESS: The contract was sent to me as manager of the works for me to carry out.

By Mr. Devlin:

Q. Would you be surprised to learn to-day that the Canadian Government had never transferred their contract to the Russian Government? Mr. Johnston, Deputy Minister of the Marine Department, said that the Canadian Government had never

made any transfer of their contract to the Russian Government. Now, assuming that to be correct——?—A. Well, I could not concur in assuming it to be correct, for this reason——

Q. That they had not made a transfer?—A. It depends entirely on what the arrangement was, and I, like the Deputy Minister, have no knowledge of what that arrangement was.

Q. You have none whatever?—A. None whatever.

Q. But you said a few moments ago, in answer to a question I put to you, that you did know that the money will come to the Canadian Vickers?—A. Naturally, because we built the ship. If it does not, of course, Vickers are a little more powerful than we are. But if the money does not come to use there will be somebody who will make a noise. Oh, the money will come; we have done the work, and Vickers will send us the pay.

Q. Well, Mr. Miller, when you do receive that money will you then seek to get a release from the Canadian contract?—A. I cannot answer that question at all, because I do not know whether a release from the Canadian contract is necessary, but I presume it is not, because I do not know how Vickers would enter into another contract knowing that the Canadian contract was standing.

Q. Well, having been told a few days ago by the official deputy head of the department that the Canadian Government had not released Vickers from their contract with the Canadian Government, the committee naturally supposes that Vickers, Limited, are subject to that contract?—A. Well, supposition does not make it so, does it?

Q. Not necessarily, I will admit?—A. I think that this undoubtedly is a question of law, and I am not a lawyer. Even if you got my opinion on that matter it would not be worth anything. Who would pay any attention to the opinion of a shipbuilder on a strictly legal point?

Mr. Boys: It is a lawyer who is asking you for it.

The WITNESS: Do you not see? If you were I and I were you, would it not be absolute folly on my part to express an opinion on a purely legal point. As manager of a ship-yard I get a contract handed to me: "Build that ship and be quick about it." I proceed to do so. It is not up to me to say why. If they tell me to burn that workshop down, and I am satisfied that it is the wish of the directors that it shall be done, I burn it down.

By Mr. Devlin:

Q. I have known many a farmer who could give a better opinion on a municipal question than many lawyers?—A. I am not a farmer, I am a shipbuilder.

Q. You have absolutely nothing before you to establish that you have been released by the Canadian Government?—A. We have nothing at all from the Canadian Government in connection with the whole business.

Q. Except the original contract?—A. The original contract from the Canadian Government to us, we have that.

Mr. Boys: As a lawyer, Mr. Devlin will appreciate that.

Mr. DEVLIN: I think so myself.

By Mr. Devlin:

Q. And you will then, according to Mr. Boys' opinion, be obliged to return to the Canadian Government the sum of half a million dollars to be dealt with by the Canadian Government as they see fit?—A. I do not acquiesce to that for one minute.

Mr. DEVLIN: Well, Mr. Boys, the witness will not agree with your opinion.

Mr. Boys: He is not a lawyer.

The WITNESS: Look here, sir, you are coming back to the same old argument that it is right and proper to force a compulsory loss on a new industry, due to causes beyond their control.

By Mr. Devlin:

Q. I will not say that?—A. That is your argument.

Q. I will say that it will be up to the Canadian Government to decide whether they should hand over to Canadian Vickers or hand over to the Russian Government the \$500,000 over and beyond the amount stipulated in the contract.

Mr. BOYS: How can he hand it over?

The WITNESS: We have spent it. The Canadian Government has already handed over that \$500,000 to the Russian Government in the ship.

By Mr. Boys:

Q. The only money the Canadian Government handled at all is the three hundred thousand odd dollars which they paid on account of the boat and which they got back?—A. That is correct.

Q. Is your position this: That you had a contract with the Canadian Government; that in some way the Russian Government entered into a contract through the Colonial Office in respect of the very same ship, and made certain modifications and additions. The ship was constructed in your yards and inspected under that subsequent contract, the first one having been treated as cancelled by the repayment of the vessel and its clearance?—A. It looks to me that way. But surely these are matters of law. Of course, the vessel is ours, you know, until she is handed over.

Q. I suppose the property of the vessel would be in you until delivery was taken by somebody in authority?—A. Yes.

By Mr. Carvell:

Q. I would like to ask a question on another line entirely. Did you ever make any representations to the Canadian Government as to the increased cost of this vessel before it was taken over by the Russians?—A. No, sir. I believe I am saying correctly, no. I am speaking from memory.

Witness discharged.

The CHAIRMAN: Mr. Johnston says that he had a consultation with Captain Mishtoft, and he told him that the contract would be transferred by the Canadian Government. That is in addition to what was passed in these cables.

Mr. ALEX. JOHNSTON, Deputy Minister of Marine, recalled and further examined.

By the Chairman:

Q. Mr. Johnston, had you a consultation with Captain Mishtoft, Naval Attache of the Russian Government at New York, with reference to the delivery of the *Hazen* to the Russian Government?—A. Commander Mishtoft called at my office. He asked for an interview with me which I accorded him. He came to see me. The date upon which he was to see me is revealed in the correspondence. I know the ship was completed, but beyond that, it would be well on in November if I mistake not.

Q. November, 1916?—A. Yes. He came to see me with the purpose—we had advised the authorities that we would withhold clearance of the ship until such a time as arrangements satisfactory to the Russian Government were concluded, and he came

to see me, so far I could ascertain from the purpose of his visit, to see whether I would not recommend granting clearance to the ship. I told him, in brief, the story of the whole transaction; I have a very distinct recollection of telling him what we were prepared to do from the very outset, that we were prepared to give his Government the full benefits of the contract, that we had advised his Government through the Colonial Office that we were ready to transfer the contract to them as they might direct, and I told him that, under those circumstances, so far as I was concerned, we would not recommend the granting of clearance. He was dissatisfied quite, because he pointed out that there was great urgency, and that they were exceedingly anxious that the boat should get away in time to get to Archangel. But in view of the facts that had arisen in connection with the transaction, and the offers we had made, we would not recommend clearance. That, in brief, is what took place between him and myself.

By Mr. Boys:

Q. To transfer the contract as far back as February, 1916?—A. I told him distinctly, and as a matter of fact, showed him the cablegram of the 26th of February, 1916. I am not sure of the date of the cable.

By the Chairman:

Q. The cablegram offering to transfer the ship to the Russian Government?—A. Yes.

By Mr. Boys:

Q. Did he appear to know the situation, or did that look like news to him?—A. I am bound to say that I gathered from him that he knew very little of what the situation was. So far as I can gather his principal mission to me was to see whether we would not grant clearance to the ship. That is the first I have seen of him, and that is the last.

By Mr. Blain:

Q. Was the secrecy the cause of his not knowing?—A. It is the secrecy that precluded him from having information. As a matter of fact, he was an attache at New York, and I do not think he would have been concerned. I am rather satisfied in my own mind that he knew nothing about it. The arrangement was concluded in London.

Q. I mean the general secrecy surrounding the whole matter. Do you think that was the cause?—A. Well, that I do not know really. I do not know, and I can very well understand that, as an attache at New York, he need not necessarily know anything about the transaction.

By the Chairman:

Q. At any rate, he knew then, and could have communicated with his Government if he had wanted to?—A. Yes.

By Mr. Carvell:

Q. I want to ask you a question. Did the Vickers Company of England, or the Vickers Company of Canada, at any time from the outbreak of the war until the yards were leased to the Admiralty for the construction of submarines, ever make any representations to your department with a view to modifying the price of the ice breaker?—A. No, I have no recollection of any being made, and there is none on record; I think I can very safely say that no representations were made, to me at all events, and I think Mr. Duguid might have known of some, but I do not think so. I think I am safe in the statement that no representations were made. In connection

with delaying the work of the ice breaker, it may be of interest, and it may be of no interest whatever, to say all we knew about it was that when it came to our knowledge that there was a proposal to construct submarines in Montreal, it was regarded as necessary that we take the position at once that the work on the ice breaker should stand aside indefinitely so long as more urgent work for the carrying on of the war required to be attended to; and there is no agreement at all; as a matter of fact I do not think there is a single word in writing about it. I was going to ask if I might refer to the evidence given on the first day. I have not had an opportunity of reading the evidence I gave on the first day very carefully, but I found one or two small matters that I wanted to correct. I called them to the attention of the clerk of the committee on the very next day, but he told me that the matter had gone to the printer and I was too late to make any corrections. I do not attach very much importance to it, but on page 23 of the evidence, there is a question by Mr. Devlin. I had stated in a previous answer: "The receipt of these documents was the very first intimation that the department had received that the transfer had been agreed to." Mr. Carvell put the question: "Had been agreed to?" I replied: "Had been agreed to." Mr. Devlin asked me: "Between whom?" And the answer is given: "A member of the Government." Well, I have rather a distinct recollection that I gave no such answer, but if I did give such an answer it would not be a correct answer. The answer which I would like to have recorded is: Between the Colonial Office and the Canadian Government. The very answer as reported requires an explanation.

By Mr. Carvell:

Q. If you will repeat what the answer should be, I will take it down?—A. I would like to have recorded: Between the Colonial Office and the Canadian Government the transfer was agreed to with the Russian Government.

Q. It happens that in every case tried in the courts there will be some little bit of evidence that does not exactly coincide with the witness's views, but you could not go back and correct them all. However if there is anything else that is material you had better make the correction?—A. There are several other corrections, but they are of no importance and I do not wish to correct them.

By Mr. Devlin:

Q. The next question by Mr. Boys: "The Canadian Government" would indicate that there was some reference in the answer to a member of the Government?—A. Yes, that is explained in the answer to Mr. Boys' question. A request came to the Canadian Government, through the Governor General, from the Colonial Office in London. The answer explains that.

Mr. CARVELL: Could not this inquiry be held open for the purpose of incorporating in the record certain portions of the contract with the Russian Government? As I recollect it, the witness, Mr. Miller, referred to it on Friday, and there are three or four clauses in that contract which I would like to have incorporated in the evidence, but I have not had an opportunity of looking over the contract, and am not prepared to say just what clauses I would like to have on the record.

The CHAIRMAN: I think that is a fair request, and you might, Mr. Carvell, confer with Mr. Miller and ascertain what clauses of that contract you wish to put in the evidence, and if Mr. Miller has no objection, they can be incorporated. Any other member who desires to do so may have other clauses put in.

Witness retired.

Committee adjourned.

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OFFICIAL REPORT OF EVIDENCE

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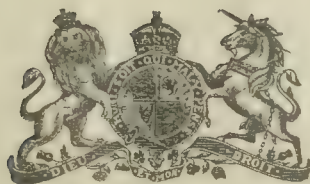
IN CONNECTION WITH

ICE BREAKER

No. 4. - Friday, May 11, 1917

NAME OF WITNESS.

J. FRASER, AUDITOR GENERAL OTTAWA



OTTAWA

PRINTED BY J. DE L. TACHÉ,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1917

MINUTES OF PROCEEDINGS.

HOUSE OF COMMONS,

FRIDAY, MAY 11, 1917.

The Select Standing Committee on Public Accounts met at 11 o'clock a.m.

The committee proceeded to the further consideration of certain payments to the Canadian Vickers, Limited, for the construction of an icebreaking steamer (the *J. D. Hazen*) for \$998,583.

The CHAIRMAN: Do you want to examine Mr. Duguid, Mr. Carvell?

Mr. CARVELL: You are speaking now regarding the icebreaker?

The CHAIRMAN: Yes.

Mr. CARVELL: So far as I am concerned, I do not see that anything can be gained by it.

The CHAIRMAN: I do not see that we can get any further information from him than what we have got.

Mr. CARVELL: Is he here?

The CLERK: Mr. Duguid is not here.

Mr. CARVELL: Is the icebreaker matter to be closed up?

Mr. BOYS: I want to ask Mr. Fraser some questions about the icebreaker.

Mr. JOHN FRASER, Auditor General, recalled and further examined:

By Mr. Boys:

Q. Mr. Fraser, you remember referring to a memorandum you said you had made in connection with the interview you had, I think, in London?—A. Well, in connection with the icebreaker I made a memo.

Q. I asked you to look that up and bring it, and you were kind enough to show me in the corridor the day before yesterday a typewritten statement (producing). That statement can hardly be the memo. you referred to?—A. That is the only memo. I have.

Q. You will observe that that paper deals with this matter almost from the beginning, giving the dates of letters, Orders in Council and so on. That would not be the memo. you made in London at the interview?—A. I do not think I made any memo. in London.

Q. Perhaps I misunderstood you. I understood that after you learned this information at the interview in London you made some memo. of it?—A. Oh, no.

Q. You did not?—A. Not that I recollect.

Q. But this paper is a list of dates of letters and other documents. Did you make this up for your use before this committee?—A. Partly, so I would not have to look these things up.

Q. You will observe it is not a memo. in any sense relating to the conversation with your informant in London, and you have no such memo.?—A. I have no such memo.

Q. I think when you were examined before you made the statement that you published your letter in your report for the purpose of directing attention to this matter?—A. Directing the attention of Parliament.

Q. I did not say "Parliament." I said directing attention to this matter. You say directing the attention of Parliament?—A. Yes.

Q. From the standpoint of the Marine Department?—A. No, from my own standpoint.

Q. But having to do with Canadian affairs?—A. Yes.

Q. And nothing else?—A. Yes.

Q. You would not feel called upon, for instance, to do it so far as the Russian Government is concerned?—A. No.

Q. You understand, I want you to understand what I mean. You would only feel called upon to call Parliament's attention to this matter so far as the Canadian Government was concerned?—A. Yes.

Q. Now, I think—Mr. Johnston made it plain, too—that you say the departmental file down to August 25, I think he said?—A. I think, the day before I wrote that letter, about that date.

Q. Your letter, I think, is dated August 25. At any rate, it would be August 24?—A. I think it was the 24th I went to see him.

Q. Since then I think you have been in attendance at all the meetings of this committee and have heard all the evidence?—A. Yes.

Q. And you paid attention to it?—A. Yes.

Q. I want to ask you to go over two or three matters with me, and the first thing I direct your attention to is the communication of the 26th of February, 1916, from the Governor General to the Secretary of State for the Colonies. The telegram reads:

Your telegram of yesterday respecting icebreaker. My advisers will agree to transfer of this vessel to Russian Government and they will give every possible assistance to ensure delivery by middle of October as requested.

You have heard that read in evidence?—A. Yes.

Q. And you saw it on the file?—A. Yes.

Q. I then refer to the communication dated 21st June, 1916, from the Deputy Minister of Marine to the Under-Secretary of State, and quote from paragraph 3:

3. The contract continues to be supervised by the officers of this department, but in view of the fact that the contractors, as they advise us, at the request of the Russian Government, are proposing extensive changes in the construction of the vessel, of which we have not been advised, their work is difficult and uncertain.

You heard that?—A. I heard that read, yes.

Q. The next communication I refer to is dated July 28, 1916, from Mr. Bonar Law to the Governor General (reads):

With reference to my cypher telegram July 5, 1916, Naval Constructor Lieutenant-Colonel Behrens, I.R.N., appointed inspecting officer for icebreaker. He will shortly leave Petrograd for Montreal.

You heard that?—A. Yes.

Q. The next communication is dated 1st September, 1916, from the Deputy Minister of Marine to yourself. I quote from paragraphs 2 and 4:

2. This department does not intend asking for the release of Vickers Company from their contract to enable them to sell the icebreaker to the Russian Government.

4. The department does not propose to justify the placing in the hands of the Canadian Vickers Company an opportunity to make a profit of possibly \$200,000 or \$400,000. If any such opportunity shall be given to Canadian Vickers, Limited, it will be through other sources than this department.

You heard that given in evidence?—A. Yes.

Q. Communication of September 2, 1916, from the Governor General to the Colonial Secretary. I quote in part as follows:

My cable 26th February last respecting icebreaker contemplated transfer to Russian Government of entire advantage of contract made by Canadian Government with Canadian Vickers. My advisers would be pleased to know whether Russian Government was advised in this sense, or if not in what form my advisers' decision was communicated to that Government.

You heard that?—A. Yes.

Q. The next communication is the 25th of October, 1916, from the Governor General to the Secretary of State for the Colonies, from which I quote:

As my advisers contemplated transfer entire advantage of contract to Russian Government, they concur in suggestion that Vickers should be approached accordingly. . . . Understand vessel will be ready for delivery in three weeks, and necessary action to satisfactorily arrange transfer should be concluded in meantime.

You heard that?—A. Yes.

Q. The next communication I quote is dated 6th November, 1916, from the Governor General to the Colonial Secretary:

Secret. Icebreaker. Your telegram November third. My ministers were relying on their decision as submitted to you by telegram of February twenty-sixth last having been communicated to and fully understood by Russian Government. They further relied on Russian Government taking necessary steps protect themselves in any subsequent negotiations with Canadian Vickers as to changes and additions in construction.

You heard that? A. Yes.

Q. Did you also hear Mr. Johnston relate the interview he had with the Russian Attaché in New York?—A. Yes.

Q. And the statement he made that he had fully advised him as to the intention of the department from February onwards to transfer to the Russian Government the contract with the entire advantage? A. I think that was the substance of it.

Q. You heard him swear to that evidence. Next communication 28th November, 1916, from Mr. Bonar Law to the Governor General:

Russian delegates learn that condition of river necessitates immediate despatch of icebreaker from Montreal in order to avoid closing in by ice which would be disastrous.

Then a further quotation:

Suggest keeping in communication with Captain Mishtovt, Russian Naval Attaché at New York, whose telegraphic address is—

You heard that?—A. Yes.

Q. Next communication, 30th November, 1916, from Mr. Bonar Law to the Governor General:

Russian Government committee have made eight payments to Vickers, London, to-day, as immediate delivery of vessel of utmost importance. Russian delegates accordingly beg your Government to take steps at once for delivery before ice closes in.

You heard that?—A. Yes.

Q. Next communication dated December 7, 1916, from Mr. Bonar Law to the Governor General:

Paramount importance is attached by Admiralty to immediate departure of vessel to her destination in order to make certain that ship will be used for this season's work, which, as explained already, is essential to the conduct of the war.

You heard that?—A. Yes.

Q. Next communication, December 8, 1916, being a memorandum prepared by the Deputy Minister of Marine and submitted to the Governor General through the minister (reads):

In view of the telegraph of the 7th instant from the Colonial Secretary to the Governor General, it would seem to be extremely undesirable to withhold clearance for the icebreaker now at Quebec any longer. The responsibility for any failure to adequately protect the Russian Government, thus enabling Vickers, Limited, of London, to seemingly make a profit out of the transaction, rests entirely with the Colonial Office and the Russian Committee in London.

The urgency and importance of the matter, from the point of view of the successful conduct of the war, warrants the recommendation to grant clearance, which I submit, subject to the minister's approval.

Next, December 9, 1916, is a cablegram from the Governor General to the Secretary of State for the Colonies:

My ministers in view of representations contained in your telegram December seventh have consented to grant clearance to ice breaker and vessel will be ready to leave Quebec as soon as sailing instructions from Admiralty received.

Now, Mr. Fraser, having all those matters in your mind, a great many of which you knew nothing about when you published your letter, I would like to ask you if you would now find any fault with the conclusion at which the Governor General arrived when he sent the communication of December 9 to the Secretary of State for the Colonies?—A. I am not going to criticise the action of the Governor General in Council.

Q. Was the Deputy Minister who sent it on at fault?—A. His conclusion was accepted by the Governor in Council.

Q. You said you do not want to criticise the Governor General, and I ask you if you find any fault at the conclusion that the Deputy Minister arrived at, having now heard all these things that you did not know when you published your letter in your report?—A. I think the Deputy Minister was justified in letting the vessel go at that stage.

Q. Very good. Well, then, I would like to ask you the further question: If he was justified in disposing of the matter as he did, do you, as Auditor General, feel called upon to criticise the transaction now that you know all the facts?—A. I am not criticising it now.

Q. You did criticise it.

The CHAIRMAN: He says he is not criticising it now.

Mr. CARVELL: Do you think it is hardly fair to ask an official of the Government to pass judgment upon any other official?

The CHAIRMAN: Mr. Boys is quite right in asking the witness his opinion since he has heard the evidence.

Mr. BOYS: Mr. Fraser, quite rightly, said he was not satisfied with this transaction when he published his lonely letter, and he did it for the express purpose of drawing attention to the matter which he hoped would result in an inquiry. Is that not right, Mr. Fraser?

The WITNESS: Yes. I might say I am dissatisfied yet in this respect—

By Mr. Boys:

Q. Would you pardon me just a minute? Mr. Carvell said the other day that each member should be permitted to conduct his cross-examination. I will state my question again. When I questioned you the other day, if I recollect correctly, you said you published that letter for the very purpose of calling attention to this matter with the hope that it would result in an investigation?—A. Yes.

Q. Now then, it has resulted in an investigation?—A. Yes.

Q. You have heard a number of matters given in evidence and you have heard communications given in evidence that you knew nothing of when you published that letter?—A. Yes.

Q. Now, I understand that, having now heard all these things, you have no criticism to offer of the Department or the Deputy Minister concerning their action in this matter?—A. I am not offering any criticism. As I was going to say before, I am dissatisfied yet, in that Vickers Limited, in London, who had apparently nothing to do with the contract, or any control over it, so far as the Dominion Government was concerned, should be allowed to sell our vessel and make a profit of over half a million dollars.

Q. Who do you blame for that?—A. I do not know who to blame.

Q. Can you show us a tittle of evidence that will warrant you in blaming the Department?—A. I am not blaming the Department.

Q. Nor the Deputy Minister?—A. I am not blaming the Deputy Minister.

Q. You think, in the end, the Deputy Minister was perfectly right, in view of the urgency of the matter, in releasing that vessel?—A. I think it was too late to do otherwise.

Q. Do you suggest that he should have done anything different than what he did do?—A. At a time when it would not affect the delivery of the vessel to the Russians, I think steps might have been taken—

Q. What do you think he should have done that he did not do?

Mr. CARVELL: Let the witness answer the question.

The WITNESS: Steps might have been taken to prevent Vickers Limited in London getting the benefit of our contract, instead of giving it to the Russians as authorized by the Order in Council.

Q. I understand what you say now, and I ask you to tell me anything that the Deputy Minister, or the Minister could have done that was not done which would have accomplished that purpose?—A. It is pretty hard on me to answer that question; I am not administering the Department.

Q. If you were not persisting in holding out in your criticism I would not follow it up, or if you say that you do not at this stage persist in your criticism I will assume that you are satisfied?—A. I am through with the contract.

Q. You put that letter in your report for the purpose of having an inquiry?—A. The inquiry is over.

Q. The inquiry is not over.—A. Well, it has been made.

Q. It is going on now, and you are taking part in it at this present moment?—A. That is not my fault.

Q. You are doing it at my pleasure, it may be, but it is a fact that you are taking part in it, and I hope you will answer that question. If you do not offer any criticism at this stage you can so answer and I am through with it, but if you suggest that there is anything that the Department should have done that they did not do, I would like you to tell us what it is.

The CHAIRMAN: If you have any criticism to submit we would like to have it.

A. It is not my place to criticise the Department.

By Mr. Boys:

Q. Is it your place to criticise the Department and give no reasons for doing so?—A. I gave my reasons.

Q. What criticism do you make at this stage?—A. I am not criticising now; the matter is before Parliament, it can do the criticising.

Q. Let me say, Mr. Fraser, that if it takes all the morning, I am going to stay here until I get your answer, and I think it is quite fair that you should give an answer to my question. Do you say that you still criticise the Department for their action in connection with this matter and if you do I am asking you to say in what respect they have been negligent?—A. I am not criticising.

Q. You are not criticising, but you did make the statement that you thought when the vessel was released it was proper at that stage that it should be released, but you intimated that at an earlier time a different course might have been taken?—A. Yes.

Q. What other steps do you say could have been taken?—A. I have not gone into the matter sufficiently to say what steps should have been taken.

Q. Mr. Fraser, I do not suppose you want to unfairly criticise any member of the Department?—A. No, sir.

Q. Now Mr. Johnston was, perhaps, put in a nasty position by the publication of your letter without his reply. I think it is only common fairness that after having heard the evidence, if you feel that he has acted as he should have acted in this matter, you should say so. Do you not think it is reasonable that you should place upon record your opinion?—A. I have no criticism to offer in connection with Mr. Johnston's action in any shape or form.

Q. Then, have you any criticism to offer with regard to any person in that Department, or in respect to the actions of that Department?—A. No, I suppose they used their best judgment in connection with the matter.

Q. And do you find fault with them?—A. No, I do not.

Q. You did find fault, but now that you know all the facts you do not?—A. It is a different proposition.

Q. And your criticism and doubts are dispelled?—A. Yes, but if there is any way of making Vickers disgorge that money, I would like to see them compelled to do so.

By the Chairman:

Q. In effect your position is that you are sorry to see that the Russian Government did not know enough to take advantage of something they might have?—A. No, I do not know how much the Russian Government knew about the situation.

Q. All these cables that have been read to you show that they were informed, and that their representative had a conversation with our own Deputy Minister on the subject?—A. Yes, but the Deputy Minister also said that he did not suppose the Russian representative knew very much about it.

By Mr. Boys:

Q. The Deputy Minister said that all these communications were between the Russian Government and the Colonial Office, and if there were any fault, it lay between the Russian Government and the Colonial Office—A. But if the Russian Government did not know it?

Q. Let us take one step at a time. The fault would, in that case, be with the Colonial Office in not communicating to the Russian Government information sent forward by this Government of their intention to give them the benefit of this contract.—A. I would not say that, but I am trying to recall one of the communications

then they say that they have never informed the Russian Government of the amount of the contract.

Q. That was before the contract was made by the Russian Government?—A. That was after the contract had been entered into by the Russian Government.

Q. That is by Bonar Law?—A. Yes.

Q. In the first place, that is not a fact, because they were informed, and in the next place, that objection is answered by a further communication, which I think I can lay my hands on.

By the Chairman:

Q. You would not suppose the Russian Government would start to make a new contract with these people without knowing what the old contract was, when the new contract provided for certain extras and additions to the old one; they must have known what the old one was in order to make that provision?—A. I can hardly take that stand in connection with this question, because I cannot understand how people who did not own our ship entered into a solemn contract with the Russians to sell them that ship; how did they know they could get the ship for delivery?

By Mr. Boys:

Q. I think you are quite right there, but that lies between the Colonial Office and the Russian Government, that is not a matter in which we are concerned.—A. No.

Q. And I think I have made it clear that at this stage you are not offering criticism of any one in the Department.—A. No, I am not.

Mr. CARVELL: I suppose this matter will be reported to the House with the usual formal motion. I think possibly sufficient has been disclosed to justify a discussion of the matter in the House; that I think is only fair to the Government and to the public.

The CHAIRMAN: I think there should be a discussion in fairness to the Government as well as to the public.

Mr. CARVELL: If you will withhold the discussion of the report until some time that we can agree upon, and subject to that proviso, I move that the proceedings be reported to the House. Motion carried.

Committee adjourned.



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